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November 19, 2009

By USPS Express Mail  
Commissioner for Trademarks,  
P.O. Box 1451,  
Alexandria, VA 22313-1451.

Ken Wilton, Esq.  
Seyfarth Shaw, LLP  
One Century Plaza, Suite 3500  
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Los Angeles, CA 90067-3021

Re: Gado S. R.L. v. Jay-Y Enterprise Co., Inc.;  
Cancellation No. 92047433

78/026.522

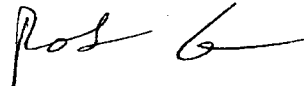
To Whom It May Concern:

Enclosed, please find a transcript for the deposition testimony of Paolo Vannucchi (with accompanying exhibits), submitted by Petitioner for filing in the above-captioned cancellation. The transcript is certified and executed by the witness.

Please note that the transcript and an exhibit have been redacted according to the protective order entered in the case. The enclosed is suitable for public filing.

Un-redacted versions of the deposition transcript and exhibits are being filed under separate cover according to the Board's practices.

Very truly yours,



Robert Carrillo  
Satterlee Stephens Burke & Burke LLP

787510



11-19-2009

November 19, 2009

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*CERTIFICATE OF "EXPRESS MAIL" SERVICE*

I hereby certify, under penalty of perjury, that this DEPOSITION TRANSCRIPT OF PAOLO VANNUCCHI, WITH ACCOMPANYING EXHIBITS (redacted), is being deposited directly with the United States Postal Service (by delivering it to a USPS employee), on November 19, 2009, for Express Mail Overnight Service to Addressee, with sufficient postage paid at the time of deposit, as set forth in 37 C.F.R. § 2.198, in a small package addressed to the address set forth in 37 C.F.R. § 2.190:

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I further certify, under penalty of perjury, that this DEPOSITION TRANSCRIPT OF PAOLO VANNUCCHI, WITH ACCOMPANYING EXHIBITS (redacted), was also served on this 19th day of November 2009, by USPS Express Mail, addressed to:

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Robert C. Carrillo

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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

-----X  
GADO S.R.L.,

Petitioner,

v.

Cancellation No. 92047433

JAY-Y ENTERPRISES CO., INC.,

Respondent.

-----X

October 21, 2009  
10:26 a.m.

Testimonial Deposition of

GADO S.R.L., by PAOLO VANNUCCHI, held at the  
offices of Satterlee Stephens Burke & Burke, LLP,  
230 Park Avenue, New York, New York, before Nicole  
Cannistraci, a Notary Public within and for the  
State of New York.

ELISA DREIER  
REPORTING CORP.

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A p p e a r a n c e s:

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BY: KENNETH L. WILTON, ESQ.

ALSO PRESENT: ROBERT CARRILLO



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IT IS HEREBY STIPULATED AND  
AGREED, by and between the attorneys for the  
respective parties hereto, that the sealing  
and filing of the within deposition be  
waived; that such deposition may be signed  
and sworn to before any officer authorized to  
administer an oath with the same force and  
effect as if signed and sworn to before a  
Justice of this Court.

IT IS FURTHER STIPULATED AND AGREED  
that all objections, except as to form, are  
reserved to the time of trial.

IT IS FURTHER STIPULATED AND AGREED  
that the within examination and any  
corrections thereto may be signed before any  
Notary Public with the same force and effect  
as if signed and sworn to before this Court.

1 Paolo Vannucchi

2 P A O L O V A N N U C C H I, having been first  
3 duly sworn by Nicole Cannistraci, a Notary Public  
4 of the State of New York, was examined and  
5 testified as follows:

6 EXAMINATION

7 BY MR. LERNER:

8 Q. Good morning. My name is Mark  
9 Lerner, as you know. I'm the attorney for the  
10 Dolce & Gabbana Group in this matter, which is  
11 the cancellation proceeding of Gado S.R.L.  
12 against Jay-Y Enterprises, Inc. We are here  
13 today for a testimonial deposition pursuant to  
14 notice.

15 I want to remind you of a  
16 couple of the ground rules today for this  
17 deposition. You see the woman to your left is a  
18 stenographer who is recording everything that's  
19 said. In order for her to do that, questions  
20 and answers must be verbal. So no nods of the  
21 head, no "uh-huhs," "uh-hum." It's tough to do  
22 over the course of a day. If you forget, we'll  
23 remind you. Also, it helps if you direct your  
24 answers either towards me or towards the court  
25 reporter so she can see and hear you.

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1 Paolo Vannucchi

2 Another thing is you should  
3 wait until questions are completed before  
4 beginning an answer so that the court reporter  
5 doesn't have to try to record two people  
6 speaking at once. If you don't understand a  
7 question, please ask to repeat it or rephrase it  
8 if you don't understand. I understand that  
9 English is not your first language, but you do  
10 speak English, so we'll try and accommodate you  
11 and speak slowly if we can. We'll understand if  
12 you take a little time to respond in English.

13 At the end of our time,  
14 Mr. Wilton will be likely asking you some  
15 questions, as well, and the same ground rules  
16 will apply for him also.

17 MR. LERNER: Is there  
18 anything you wanted to put on the  
19 record?

20 MR. WILTON: The only thing I  
21 thought I'd mention, as you saw  
22 yesterday, sometimes I will object to  
23 questions that Mr. Lerner poses to  
24 you. I'm just doing that for  
25 evidentiary reasons in front of a

1 Paolo Vannucchi  
2 tribunal. If there is a problem with  
3 the question, Mr. Lerner might  
4 rephrase it. If not, feel free to  
5 answer.

6 Q. So I'll let you know if  
7 Mr. Wilton does interpose an objection, I'll  
8 either ask a new question and see whether he  
9 objects again or I'll look at you and say go  
10 ahead and answer.

11 A. Okay.

12 Q. This isn't the nature of you  
13 sitting in the witness box in a courtroom, but  
14 as you can see, there is no judge here.

15 One other thing is I note that  
16 we're not trying to do this as a marathon. I'm  
17 hoping this will not take all day, but certainly  
18 if you need a break at any point in time, let me  
19 know and we'll find an appropriate time to stop.

20 A. Very good.

21 Q. Would you please state your  
22 name for the record.

23 A. My name?

24 Q. Yes.

25 A. Paolo Vannucchi, P-A-O-L-O,

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1 Paolo Vannucchi

2 V-A-N-N-U-C-C-H-I, Paolo Vannucchi.

3 Q. Mr. Vannucchi, where do you  
4 currently reside?

5 A. At the moment I'm Director  
6 of --

7 Q. Where do you reside, where do  
8 you live?

9 A. In Milano, Italy.

10 Q. Are you currently employed?

11 A. Yes. I'm currently employed in  
12 Dolce & Gabbana and the Director of Planning and  
13 Control Worldwide. I'm in charge of the full  
14 department and I'm based in Milano, close to  
15 Milano.

16 Q. How long have you been employed  
17 as the Director of Planning and Control  
18 Worldwide?

19 A. I joined Dolce & Gabbana Group  
20 in 1999, March '99. So the next March will be  
21 almost 11 years.

22 Q. Have you held the title of  
23 Director of Planning and Control the entire time  
24 that you have been employed by Dolce & Gabbana?

25 A. Since the beginning when I

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1 Paolo Vannucchi  
2 joined the company, I established this function  
3 that was not existing before.

4 Q. Can you tell me what your  
5 current responsibilities are as Director of  
6 Planning and Control?

7 A. At the moment I'm responsible  
8 for all the budgeting process, meaning that I'm  
9 in the middle between the board of director and  
10 the person in charge, single business. My  
11 responsibility is to collect information, put  
12 together all information and create what we call  
13 in -- the budget in order to see if the budget  
14 is -- we can make profit or not.

15 Q. When you say collect  
16 information, what type of information do you  
17 collect?

18 A. Information in terms of  
19 expenses and revenues and investments. In the  
20 case of new investments, like new stores,  
21 industrial activity, whatever investment we can  
22 assume that's going to be done.

23 Q. Where do you collect this  
24 information from?

25 A. Normally the process is that we

1 Paolo Vannucchi  
2 have an official timing, internal official  
3 timing with some fixed date on which we have to  
4 receive some information. Before that, we have  
5 discussion and meeting with all the other  
6 departments, not only me, the rest of the staff  
7 that's working with me. We collect this kind of  
8 information, we make some discussion, we make  
9 some analysis. When we finally think that all  
10 the information is correct and appropriate, we  
11 put together all information, we share  
12 information with the person in charge for each  
13 single business. When I collect all information  
14 worldwide, in Italy, US, in the rest of the  
15 world, we put together all information. We  
16 create what we call a P&L consolidated. We  
17 consolidate all the information. We present  
18 these documents, all the details to the board of  
19 director.

20 The board of director will go  
21 through each single thing, P&L breakdown,  
22 whatever, give an opinion, say okay, approve, I  
23 don't agree, I want to recheck this and this and  
24 this. If something will go smoothly, then they  
25 say this is approved. Officially I pass all the

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1 Paolo Vannucchi  
2 information to all responsible in charge for  
3 single business and says in the official budget.  
4 If it's not approved, we receive it again to  
5 discuss it, to readjust eventually the specific  
6 request by the board, elaborate, re-present the  
7 documents. If it's finally approved, this will  
8 be the official budget.

9 Q. Is that official budget filed  
10 with any government body?

11 A. No, only for internal use.

12 Q. Can you tell me prior to 1999,  
13 were you employed anywhere?

14 A. I was employed for seven years  
15 for another Italian company called Loro Piana,  
16 L-O-R-O, P-I-A-N-A.

17 Q. What was your position there?

18 A. I was there as a controller, I  
19 would say, and personal assistant of one of the  
20 owners at the time and still at the present,  
21 Mr. Sergio Loro Piana. I was personal assistant  
22 to him. Basically I was involved -- my  
23 responsibility was -- originally the company was  
24 industrial company because they make production  
25 for cloth. When I joined the company, they



1 Paolo Vannucchi

2 decided to make a new project opening stores  
3 around the world, so to make finished goods  
4 using their raw material. I was -- my  
5 responsibility was to create, like internal  
6 budgeting processing, a new internal reporting  
7 to keep under control the new business that they  
8 were -- that I'm introducing in the company. I  
9 stayed there for seven years. Meanwhile, they  
10 open different stores during that.

11 Q. Prior to that, were you  
12 employed somewhere?

13 A. Before I was working as an  
14 auditor in -- an international auditor firm that  
15 was at the time Peat Marwick, KPMG, Peat  
16 Marwick. Today the name is only KPMG. At the  
17 time the name was KPMG Peat Marwick. I'm  
18 talking '88 to 1992. During that time, they  
19 merge KPMG with -- when I started at the  
20 beginning, it was just Peat Marwick. Then they  
21 joined with KPMG and now the name today is only  
22 KPMG.

23 Q. Can you briefly describe the  
24 corporate structure of the Dolce & Gabbana  
25 Group?

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1 Paolo Vannucchi

2 A. At the moment?

3 Q. Yes.

4 MR. WILTON: Objection, lack  
5 of foundation.

6 Q. Are you familiar with the  
7 structure of the Dolce & Gabbana Group in your  
8 role as Director of Planning and Control?

9 A. Absolutely, yes.

10 Q. Can you describe that  
11 structure?

12 A. At the moment, the structure  
13 from -- I would say from a legal point of view,  
14 in terms of legal entity, we have our  
15 headquarters based, of course, in Italy in which  
16 we have a holding company in Italy. This  
17 holding company owns -- I would say we have  
18 different legal entity around the world.  
19 Basically our structure is we have one legal  
20 company for each single country.

21 To give you an example, in  
22 France we have one legal entity and inside this  
23 legal entity we have different activity. We  
24 handle stores, we have wholesale business,  
25 meaning we have showrooms. We have a sales

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1 Paolo Vannucchi

2 department that sells to the market. We have a  
3 relationship with the customer. So the company  
4 is split in different, different departments in  
5 one legal company.

6 In Italy same story, more  
7 sophisticated, because we are the holding  
8 company. Then we have the production company.  
9 That's the company that is called the Dolce &  
10 Gabbana, which we make all the production. We  
11 have another company for everyday activity. All  
12 the Italian stores are inside this company.

13 Inside the holding, famous  
14 Dolce & Gabbana S.R.L., we have different  
15 function. Style department is in there. The  
16 commercial department is in there. The  
17 licensing department is in there. Then the  
18 general affairs is in there. Basically that  
19 company, Dolce & Gabbana S.R.L., we have the  
20 control of the basic function of the company.

21 In Dolce & Gabbana Industria,  
22 where I'm also based, we make the production,  
23 meaning that we purchase raw material, we  
24 purchase accessories, we sell raw materials and  
25 accessories to external supplier. They make

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1 Paolo Vannucchi  
2 finished products. We receive back the finished  
3 products and then we sell products to all the  
4 other company. When we sell, we could sell to  
5 wholesale business, to third-parties or to  
6 retain business our own stores.

7 So basically the structure of  
8 the business is organized by brand because  
9 inside each single legal company, all the  
10 function are split by brands, Dolce & Gabbana  
11 and D&G. I would say we have two different  
12 division inside each single company. Inside  
13 each single company we have two division and  
14 inside each single division we have the retail  
15 activity and the wholesale activity. When I say  
16 "retail," I mean we have own stores and the  
17 brand, Dolce & Gabbana, or D&G, which we handle  
18 activity. Then we have the wholesale business,  
19 Dolce & Gabbana, D&G. That means when we sell  
20 products to third-parties.

21 Q. Are you familiar with a company  
22 called Gado S.R.L.?

23 A. Yes. Gado is a company that  
24 has been established in 2004. Gado is the owner  
25 of the two brands, of the trademark.

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1 Paolo Vannucchi

2 Q. Do you know what the  
3 relationship is, if any, between Gado and Dolce  
4 & Gabbana holding company?

5 A. Their relationship is that Gado  
6 is the owner of the brands. So Dolce & Gabbana  
7 pay royalties for the use of the brand.

8 Q. Do you know whether that's  
9 pursuant to a license?

10 A. Same story for the license,  
11 because Dolce & Gabbana S.R.L., it's a limited  
12 company, S.R.L., pay royalties to Gado, for use  
13 of all the brands.

14 Q. Am I correct -- I think you  
15 testified there are two brands that Dolce &  
16 Gabbana Group sells?

17 A. Yes.

18 Q. What are those two brands?

19 A. Dolce & Gabbana and D&G, two  
20 different brands.

21 Q. Will you understand if I refer  
22 to the Dolce & Gabbana brand as "the Premier  
23 line" or simply "Dolce"?

24 A. I personally recognize it  
25 perfectly. Just to give an example -- I don't

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1 Paolo Vannucchi

2 know if you have ever been in a D&G or Dolce &  
3 Gabbana stores. Dolce & Gabbana, the first  
4 message, the store is black. The other one is  
5 white. For sure if you came in, you  
6 immediately -- the concept is totally different.

7 Q. So we're not confused in  
8 language, because it can get difficult, D&G,  
9 Dolce & Gabbana, sometimes it gets short-handed,  
10 if I refer to the Dolce & Gabbana, or the black  
11 brand, as you said, as the "Premier" or "Dolce,"  
12 will you understand that I'm referring to Dolce  
13 & Gabbana?

14 A. In the past, someone -- because  
15 the brand D&G was written D&G in very small  
16 Dolce & Gabbana. So at that time someone made a  
17 confusion. At the moment we have Dolce &  
18 Gabbana, very clear, and D&G. There is no  
19 confusion anymore if you see the brand.

20 Q. I'm just saying for purposes of  
21 today, so we're clear in our conversation,  
22 sometimes Dolce & Gabbana may refer to the  
23 company. So if I were to also say "Dolce &  
24 Gabbana," you might think I'm either talking  
25 about the company or talking about the brand

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1 Paolo Vannucchi

2 Dolce & Gabbana. So to not have that confusion,  
3 I may just refer to the brand as "the Premier  
4 brand" or "Dolce." Will you understand me then  
5 when I say "the Premier brand"?

6 A. Yes, absolutely.

7 Q. When I say "D&"G, I'm referring  
8 to the other mark or line, D&G.

9 A. We don't call "second line"  
10 because we cannot call "second line."

11 Q. Understood. Ms. Forte made  
12 that very clear. I will not call that "second  
13 line." That's why I'll say "Premier" or "D&G."

14 A. To me it's clear what is Dolce  
15 and what is D&G.

16 Q. So Dolce and D&G. Can you tell  
17 me when the Dolce line was launched in the  
18 United States?

19 A. In United States, Dolce, if my  
20 memory is correct, we launch in 1990, Dolce.

21 Q. What about D&G, when was that  
22 launched in the United States?

23 MR. WILTON: Objection, lack  
24 of foundation.

25 Q. Do you know when the D&G brand

1 Paolo Vannucchi  
2 was launched in the United States?

3 MR. WILTON: Same objection.

4 A. D&G in '95, five years later.

5 Q. In your role as Director  
6 of Planning and Control, have you had occasion  
7 to review the company's financial history in  
8 terms of its sales of goods into the United  
9 States?

10 A. Absolutely, yes.

11 Q. Based on that review, do you  
12 have some understanding as to when the two lines  
13 were first sold into the United States?

14 A. You're talking of the annual  
15 review or --

16 Q. Just generally in your review,  
17 did you come to an understanding of when the  
18 lines were first sold?

19 A. Based on some analysis, we have  
20 all the information, because all information is  
21 split by country. So that's why when we go  
22 through each single report, I can immediately  
23 understand. I go with my memory. When you say  
24 '90, '95, I have track of all information in  
25 Italy. I presume that this was the period

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1 Paolo Vannucchi

2 specific for the US market.

3 Q. Can you tell me how the Dolce  
4 line is currently distributed? Do you have an  
5 understanding of how the Dolce line is  
6 distributed?

7 A. Generally or in US?

8 Q. US.

9 A. At the moment, Dolce & Gabbana  
10 first line is distributed through two channels,  
11 our own stores, the Dolce & Gabbana stores that  
12 are five in United States, and through the  
13 wholesale business, third-parties, what we call  
14 US department stores or multi-brand stores.  
15 Basically what we make is we invoice from Italy.  
16 So the merchandise production is in Italy. We  
17 ship and invoice merchandise from Italy to US or  
18 directly to the third-parties. So the  
19 department stores, multi-brand stores,  
20 department store like Neiman Marcus, Saks  
21 Fifth Avenue or to the Dolce & Gabbana  
22 companies. It's an intercompany transaction  
23 which we sell merchandise to the company which  
24 purchases the merchandise and sells the  
25 merchandise in the Dolce & Gabbana stores.

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1 Paolo Vannucchi

2 Q. What about the distribution of  
3 the D&G line? Are you familiar with how that's  
4 distributed?

5 A. Yes.

6 Q. Tell me how that's distributed  
7 in the United States.

8 A. D&G, at the moment, is a  
9 different story because D&G, we bring back the  
10 license from Itierre in 2007 with the season  
11 spring/summer 2007. At that point for the US we  
12 decided -- because in the past Itierre was  
13 distributing the D&G line in USA through a  
14 distribution company. Distribution company, I  
15 mean someone will receive all the merchandise  
16 from Italy and then from US sell to  
17 third-parties to the stores. We kept exactly  
18 the same distribution structure. We decide to  
19 establish another company we call Dolce &  
20 Gabbana, LLC. Basically the production is still  
21 made in Italy. We ship all the merchandise from  
22 Italy to the American company. The American  
23 company resell to the third-parties and to our  
24 D&G stores, our own stores.

25 Q. So you mentioned there was a

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1 Paolo Vannucchi

2 change in the manner of distribution back with  
3 the spring/summer season for 2007. Prior to  
4 that, it had been distributed by Itierre through  
5 a distribution company which then sold in the  
6 United States. Was that also the case when you  
7 arrived at the company in 1999?

8 A. Yes, it was the same.

9 Q. Do you know whether it was the  
10 same method of distribution prior to your  
11 arrival in 1999?

12 A. I don't remember. Should be  
13 the same because I presume since the beginning  
14 they were operating in that way. I don't  
15 remember before 1999.

16 Q. Going back to the Dolce line  
17 and that method of distribution, was that method  
18 of distribution the same as when you arrived in  
19 1999?

20 A. Yes, exactly the same.

21 Q. Do you know if it was the same  
22 prior to then?

23 A. Always since the beginning I'm  
24 sure it was exactly the same.

25 Q. Speaking of the Dolce line, do

1 Paolo Vannucchi

2 you know how many wholesale accounts Dolce &  
3 Gabbana currently has in the United States?

4 A. As an average number, I would  
5 say 100.

6 Q. What do you mean by "as an  
7 average number"?

8 A. Because I don't have here my  
9 precise information, but based on the analysis I  
10 made for the budget, I can assume 100 is a  
11 reasonable number, accounts, not doors.

12 Q. Do you know how the 100  
13 accounts translates -- what do you mean by  
14 "doors"?

15 A. I mean, maybe you have one  
16 customer, but you could have twenty stores. So  
17 the twenty stores to me are twenty doors.

18 Q. So Saks Fifth Avenue might be  
19 one wholesale customer, but they might have  
20 twenty stores?

21 A. Correct.

22 Q. Do you know in fact whether  
23 Saks Fifth Avenue is a customer?

24 A. Saks Fifth Avenue is a  
25 customer.

1 Paolo Vannucchi

2 Q. What about back in 1999, do you  
3 know approximately how many wholesale accounts  
4 Dolce & Gabbana had for the Dolce line at that  
5 time?

6 A. At that time I would say 80.  
7 Basically the customer are more or less, in the  
8 last ten years, always the same. The big  
9 customer we know are always the same. We  
10 increase business with them. The selection of  
11 the distribution, the top customer, top accounts  
12 are still there.

13 For our business you cannot  
14 open a thousand new accounts every year. We can  
15 invest, increase your business with very select,  
16 existing accounts. That's why in the last ten  
17 years the numbers didn't change so much.

18 Q. What about the D&G line  
19 presently, do you know how many wholesale  
20 accounts there are?

21 A. I would say as an average  
22 number, the same, 100.

23 Q. Back in 1999, the D&G line was  
24 being distributed by Itierre. Do you have any  
25 knowledge of the number of wholesale accounts

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2 from that time period?

3 A. I presume Itierre had much more  
4 account than us because when we took back the  
5 license, we clean up a lot of customer that we  
6 didn't consider "good customer." At the moment  
7 is 100 and 100, so same number. In the past I  
8 don't know exactly the number, but it was more  
9 than 100.

10 Q. What kind of customer wasn't  
11 considered a good customer?

12 A. Because of the location in a  
13 specific state or city or an area or a street  
14 inside one specific place that we didn't  
15 consider at our D&G level, so we decided to  
16 cancel, eliminate. Then we also check some  
17 analysis with payments with the customer that we  
18 had few, a few, which we had some payment  
19 problem. We decided to clean it up and restart  
20 the business with the existing but good  
21 customer.

22 Q. Going back to the Dolce line  
23 presently and focusing on the retail  
24 distribution, how many retail stores does Dolce  
25 & Gabbana currently have for the Dolce line in

1 Paolo Vannucchi

2 the United States?

3 A. At the moment we have five  
4 stores, Dolce. Madison Avenue, Los Angeles,  
5 Bal Harbour, Las Vegas and Short Hills.

6 Q. What about the D&G line, how  
7 many retail stores?

8 A. D&G presently we have seven  
9 stores.

10 Q. Going back to 1999 for the  
11 Dolce stores when you first started, do you know  
12 how many Dolce stores there were in the US?

13 A. When I joined the company, we  
14 opened -- the existing store were -- since 1997  
15 only two, Dolce & Gabbana Madison Avenue and D&G  
16 SoHo. When I joined the company, there were  
17 only two stores, only two. In addition to the  
18 Dolce & Gabbana, D&G, we have three outlets.

19 Q. In the United States?

20 A. In the United States.

21 Q. Where are those?

22 A. Woodbury Common, Las Vegas and  
23 Cabazon, C-A-B-A-Z-O-N, California.

24 (An off the record  
25 discussion took place.)

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2 Q. Are you talking presently that  
3 there are those three retail outlets?

4 A. Yes.

5 Q. What about when you started in  
6 1999, how many retail outlet stores were there?

7 A. At the time we didn't have any  
8 outlet.

9 Q. Can you tell me when those  
10 opened?

11 A. The outlet, if I remember, we  
12 opened in -- first one was Woodbury Common 1999.

13 Q. Do you have a sense of when the  
14 other two opened?

15 A. I would say 2000 -- Cabazon, I  
16 would say 2004, and Las Vegas 2003.

17 Q. Does Dolce & Gabbana operate on  
18 a fiscal year?

19 A. What do you mean, excuse me?

20 Q. Is there a fiscal -- what is  
21 the fiscal year for --

22 MR. LERNER: I'm worried  
23 about your foundation. If I just ask  
24 him what the fiscal year is, you are  
25 going to object there is no



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2 foundation.

3 A. You mean which is the period of  
4 the fiscal year?

5 Q. Yes. What's the fiscal year  
6 for Dolce & Gabbana?

7 A. From the 1st of April ending  
8 end of March.

9 Q. For the fiscal year that just  
10 ended at the end of March 2009, do you know what  
11 the revenue -- what the revenues were for the  
12 Dolce retail stores in the US, ballpark figure?

13 A. Including only Dolce --

14 Q. If it's easier to do two lines  
15 at once --

16 A. I know the big total  
17 immediately, which Dolce and --

18 Q. Tell me the big total.

19 A. Sixty million. Of the  
20 60 million, 8 million is outlet. It's 52. Of  
21 this 52, I would say 32, rough number, is Dolce  
22 and 20 is D&G. Retail business only.

23 Q. Going back to 1999, you said  
24 there were only two stores and the outlet was  
25 opening that year. Let's just consider the two

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2 stores. Do you know what the approximate retail  
3 revenue was for the retail stores for the fiscal  
4 year-ended March 1999?

5 A. March 1999, 6 plus 4, 9 to  
6 10 million.

7 MR. WILTON: Can you read  
8 back the question?

9 (The last question was read  
10 back by the court reporter.)

11 Q. For the fiscal year-ended  
12 March 31, 2009, can you tell me what Dolce &  
13 Gabbana's worldwide consolidated revenues were?

14 A. Worldwide is -- was end of  
15 March '99?

16 Q. 2009.

17 A. In Euro, not Dollars, 1.2  
18 billion as a big number.

19 Q. Do you know what the  
20 approximate exchange was at the end of March for  
21 the Euro to Dollar?

22 A. We could say around 1.3, so it  
23 means 1.6 billion.

24 Q. Can you break that number down  
25 for me? Is part of that number wholesale, part

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2 of that number retail?

3 A. Basically this is a big total.  
4 The big total we split in wholesale business,  
5 retail business and income coming from the  
6 licensing revenues. For wholesale business, we  
7 mean sales of product to third-parties. This is  
8 the wholesale sales business. Wholesale of  
9 finished products, Dolce & Gabbana or D&G to  
10 third-party worldwide. Of this 1.2 billion, we  
11 can say 700 million Euro is wholesale business.

12 Q. What about retail?

13 A. Then we have the retail  
14 activity for retail sales. I mean sales  
15 generated through our own stores, Dolce &  
16 Gabbana and D&G worldwide.

17 Q. And the outlets, are those  
18 considered retail?

19 A. And the outlets. In total, if  
20 you adopt the number of stores, Dolce & Gabbana,  
21 D&G and outlet total at the end of March, there  
22 were around 130 stores. So the total amount of  
23 these sales is 400 million worldwide. So 700 of  
24 sales, 400 of retail and the last 100 is the  
25 income coming from the royalties commission,

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2 from the licensing activity. We have Luxottica,  
3 Procter & Gamble and Binda. I'm talking of  
4 sunglasses, perfume, fragrance and watches and  
5 D&G jewelry which they sell -- they handle the  
6 business and they pay to us royalties,  
7 commission. So the 100 is the commission paid  
8 by the licensee, the three licensees.

9 Q. Those were all in Euro,  
10 correct?

11 A. Yes.

12 Q. Can you tell me, do you know  
13 that 100 million royalty revenue, what retail  
14 revenue that is based on, the total amount of  
15 retail revenue from the licensing worldwide?

16 A. We have another way to say  
17 because we have our consolidated revenue that is  
18 1.2 billion. Then we have what we call, because  
19 it's our internal way of calling, wholesale  
20 revenue. For wholesale revenue in total, we  
21 mean sales that we make as a Dolce & Gabbana  
22 Industria when we make to third-parties and to  
23 inter-company, company. In addition to that,  
24 all the sales that the licensee make to the  
25 retail channel, if you add up our sales with

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2 their sales, wholesale, the total amount at the  
3 end of March 19 -- 2009 was 1.6 billion Euro.

4 Q. Worldwide?

5 A. Worldwide. I repeat --

6 Q. That's okay, we got it on the  
7 record. Thinking about that fiscal year and  
8 March 2009, can you tell me approximately what  
9 percentage of that revenue, consolidated  
10 revenue, came from sales in the United States?

11 A. As an average in the last  
12 fiscal year, I would say in between 14,  
13 15 percent. Of this 1.6 billion -- because to  
14 give an example, to me Luxottica and Binda are  
15 Italian company. When I receive royalties, for  
16 me the revenues is Italy. When I say  
17 15 percent, then I have to go through the  
18 wholesale business and to see and make the  
19 analysis and to understand what is the sales  
20 that Luxottica makes in United States or Binda  
21 makes in the United States. When I say 14 to  
22 15 percent, I mean sales based on how much we --  
23 has been sold from them to the market and from  
24 us to the market. My wholesale business, if I  
25 sell to -- wholesale business, if I sell to

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2 Dolce & Gabbana USA Neiman Marcus is inside my  
3 1.6 billion, I can say this is my part to US.  
4 After taking information from Binda, Luxottica  
5 and Proctor & Gamble and see how much they sold  
6 to US, if add up my sales with their sales, at  
7 the end I can say of this 1.6 billion, 14 to  
8 15 percent is United States sales.

9 Q. Has the fiscal year changed at  
10 all since you began in 1999?

11 A. When I joined the company, I  
12 was involved -- when we put together for the  
13 first time all the consolidated information --  
14 when I joined the company at the end of  
15 March 1999, the company was 100 million Euro in  
16 sales, 100. Today -- the last is 1.2 billion.  
17 We went 12 times. The number of employees, when  
18 I joined the company, we were 300 people. At  
19 the end of March of 2009 we are 3,500 people.  
20 So the company is a little bit changed in the  
21 last ten years.

22 Q. Can you do the same breakdown  
23 for me for the wholesale retail licensing as  
24 portions of that 100 million from fiscal  
25 year-end 1999?

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2 A. 1999, the wholesale business  
3 was 250 million wholesale business.

4 Q. Could it be thousand? The  
5 total was 100 million?

6 A. The wholesale business. I'm  
7 talking of the wholesale.

8 Q. So the wholesale revenue total  
9 was 250 million Euro?

10 A. You're asking -- tell me  
11 breakdown of the 100?

12 Q. Yes.

13 A. How much was the 100?

14 Q. Yes, if you know.

15 A. As a rough number, I'm not  
16 sure, I have to think, one second. Of the 100,  
17 we had 70 million of the 100, 70 million was  
18 wholesale -- sorry, 60 million wholesale. I  
19 would say 15 million retail. Fifty million  
20 income from licensing.

21 Q. That wouldn't add up to 100.

22 A. Sixty, 15 and 225, sorry.

23 Q. I'm not a numbers guy, but that  
24 didn't add up for me. So --

25 A. At that time the proportion was

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2 different because when I joined the company,  
3 most of the licensing were outside. Starting  
4 from '99, we bring back all the license,  
5 knitwear, ties, junior, shoes, handbags. We  
6 bring back so we transform the sales from  
7 royalty sales to sales of product. That's why  
8 at that time it was different composition of the  
9 retail wholesale and licensing compared with --  
10 at the moment we bring back everything excluding  
11 Luxottica, Proctor & Gamble and Binda,  
12 sunglasses, watches and fragrances.

13 Q. Again, focusing on the fiscal  
14 year March 30, 1999, what was the wholesale  
15 revenue total for sales worldwide as you  
16 previously defined the wholesale revenue?

17 A. 250 million.

18 Q. Is that in Euro?

19 A. Euro.

20 Q. Can you tell me approximately  
21 what percentage of that wholesale revenue total  
22 was from sales into the United States?

23 A. At that time I would say, ten  
24 years ago, around -- in between 10 and  
25 12 percent.



1 Paolo Vannucchi  
2 (An off the record  
3 discussion took place.)  
4 (Annual Review 01 marked  
5 Exhibit A for identification.)

6 Q. The court reporter has just put  
7 in front of you what we've marked as Exhibit A,  
8 if you would take a look through this document.  
9 It's a collection of pages that have Bates range  
10 on it DG00580 through 00608. On the cover it is  
11 marked Annual Review 01 Dolce & Gabbana. Do you  
12 recognize this document?

13 A. Yes. I was fully involved in  
14 the first edition because when I joined the  
15 company, we didn't have tools like this. We  
16 decided with the board of director to create.  
17 First of all, as everybody knows in Italy, all  
18 the financial statement are -- everybody can see  
19 it published. You can see all the information  
20 because it's a public document. All the  
21 information that you have here, in any case, in  
22 a different way of reporting -- you can see it's  
23 public. Everybody can -- you can ask and say I  
24 want to see all the financial statements.

25 Q. What is this document that

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2 you're looking at that's Exhibit A?

3 A. The document is what we call  
4 annual revenue. It's a mix of financial  
5 information and I'll say information of the  
6 company in a way that someone -- if you are in  
7 Dolce & Gabbana, you can understand reading  
8 these documents what is the story and what is  
9 the numbers. We try to make something very  
10 short, very synthetic way by giving a picture of  
11 the company. In this number you have  
12 description, starting from description of the  
13 company and information, financial information.

14 Q. To your knowledge, is this an  
15 accurate copy of the 2001 annual review?

16 A. Absolutely. All the numbers  
17 are audited.

18 Q. This exhibit itself, as you  
19 look at it, it seems to be an accurate copy of  
20 the 2001 review?

21 A. Yes.

22 Q. Who created this document?

23 A. The department that created  
24 these documents is what we call General Affairs  
25 Department. It is responsible to put together

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2 all the information to make the layout to the  
3 stylists and to print and distribute all the  
4 information.

5 Q. Where did the General Affairs  
6 Department get the information?

7 A. Basically I will say the  
8 picture from the advertising and the PR  
9 department, the story, talking with Mr. Dolce,  
10 historical person that's working since the  
11 beginning of the company; and the financial from  
12 my office or -- Planning and Control or from the  
13 other department that is Finance and  
14 Administration office. We have two separate  
15 functions.

16 Q. Were you involved in the  
17 creation of this document?

18 A. Yes, I was involved.

19 Q. What was your role?

20 A. The role was that -- to give  
21 you an example, I made the preparation of all  
22 the wholesale chart. If you go to page -- the  
23 Corporate Structure Organization chart, the  
24 function involved was the finance, all the  
25 company. If you take the positioning,

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2 distribution, advertising campaign, that would  
3 involve sales department, advertising and  
4 promotion department. Almost all the function  
5 of the company were involved to make all  
6 description or numbers.

7 MR. WILTON: There is a  
8 little number that appears on the  
9 bottom of each page, can you tell --

10 THE WITNESS: It's an --

11 MR. LERNER: No. This is the  
12 number we marked on the page that we  
13 produced to Mr. Wilton in connection  
14 with the proceedings. He is just  
15 asking that if you are referring to  
16 something on a particular page of the  
17 review, that you refer to what page  
18 so he can follow along.

19 A. DG00590, this is company  
20 structure. This was made by Administration and  
21 Finance. Here you have all the -- I -- when I  
22 make the budget and the actual from internal  
23 point of view, my starting point is the legal  
24 entity.

25 Q. Based on your review of the

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2 legal entity as it appears on DG00590, this was  
3 correct at the time this was created in 2001?

4 A. Absolutely.

5 Q. We were talking about your  
6 role, what you helped to create this.

7 A. DG00593, Communication  
8 Investments, I made this analysis. I took all  
9 the information from each single legal entity.  
10 This is the actual cost that we spent in the  
11 fiscal year. I create this number.

12 Q. You are talking about the bar  
13 graph on the bottom left-hand corner of --

14 A. I'm just reading what this  
15 amount -- the amount 54.6 million Euro and this  
16 amount, I have all the breakdowns and I know  
17 exactly this amount, from where it's coming  
18 from, legal entity by legal entity.

19 Q. What is meant by "communication  
20 investments"? Is that your term?

21 A. Communication is what we  
22 call -- communication cost is under the  
23 responsibility of the Advertising and Promotion  
24 Department. Basically the total amount is all  
25 the expenses that we had in media campaign, all

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2 the other advertising that we made on the media,  
3 on the TV, all the expenses that we made to  
4 communicate our brand in the mark.

5 Q. So any media, television,  
6 print. These figures that appear on DG00593,  
7 these are worldwide figures for Dolce & Gabbana?

8 A. Yes, worldwide. All the  
9 information here basically are all worldwide.

10 Q. Looking at the graph for  
11 2001/2002, does that refer to the fiscal year  
12 beginning April 1, 2001 and ending March 30,  
13 2002?

14 A. Correct.

15 Q. Can you tell me approximately  
16 how many millions of Euro that was?

17 A. It's written here. 2002 is  
18 54.6 million. The previous year was  
19 48.8 million Euro.

20 Q. What about fiscal year-end  
21 March 2000?

22 A. I would say in between 36 and  
23 37 million Euro.

24 Q. Looking at the fiscal year-end  
25 2002, do you know approximately what percentage

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2 of that advertising budget was allocated to the  
3 United States?

4 A. I would say of this big total  
5 as an average, referring to this specific here,  
6 we are in between I would say -- in the last  
7 five years -- 2002 is including -- I would say  
8 the allocation to the US of this total we can  
9 consider in between 24, 25 percent, 24,  
10 25 percent.

11 Q. As an average for the last five  
12 years?

13 A. Yes.

14 Q. What about fiscal year-end  
15 2000, that's prior to the last five years, can  
16 you give me an approximation of what percentage  
17 total worldwide was allocated to the US in that  
18 time period?

19 A. Year 2000?

20 Q. Year-end March 2000.

21 A. Something in between I would  
22 say 21 and 25 percent.

23 Q. As part of your role as  
24 Director of Planning and Control, are you  
25 responsible for helping set a budget for

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2 advertising?

3 A. Yes.

4 Q. Did you do that for fiscal  
5 year-end March 2009?

6 A. Yes.

7 Q. Do you work with advertising  
8 budgets as a percentage of revenue?

9 A. Yes.

10 Q. Thinking about fiscal year-end  
11 2009, can you tell me what the budget was for  
12 advertising as a percentage of total revenue?

13 A. I would say in between 7 -- the  
14 budget, I would say 7 percent.

15 Q. Does that differ from the  
16 actual?

17 A. The actual was almost 8. There  
18 is an explanation. There is an extra budget we  
19 gave because we made some events. Normally the  
20 percentage we use is 7 percent. It depends  
21 during the year what would happen because we are  
22 an official company. We have many communication  
23 activity that sometimes we try to budget, but  
24 maybe they decide one thing for the other.  
25 Sometimes we have to do. This is it, it's

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2 impossible to try to make a budget. Here was  
3 8 percent.

4 Q. When you arrived in 1999, were  
5 you involved in planning a communications or  
6 advertising budget?

7 A. Yes.

8 Q. At that time did you also  
9 consider a budget as percentage of revenue?

10 A. Yes.

11 Q. What was the budget for  
12 advertising communications at that time?

13 A. At that time it was a little  
14 bit more because the volume of the sales was  
15 lower. We fix an amount, a bit more. I would  
16 say in between 8 and 9, 10 percent maximum at  
17 that time.

18 Q. Page 45 of the report, what's  
19 marked with DG00605, there is a reference to  
20 results for 2001, 2002.

21 A. Okay.

22 Q. I direct your attention to the  
23 chart here. It says Figures in Millions of  
24 Euros and Consolidated Income Statement. Were  
25 you involved in the creation of this

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2 consolidated income statement?

3 A. Yes.

4 Q. Can you tell me what this  
5 represents?

6 A. Fiscal year-ending March 2002,  
7 the total revenues at that time was 317 million  
8 Euro. Industrial sales, wholesales,  
9 100 million. Industrial sales, 200 million  
10 Euro. Retail sales, 74 million Euro. Licensing  
11 revenue, 42 million Euro for a total of 317  
12 Euros.

13 Q. There is a line there that  
14 you've skipped over that refers to Net Sales.  
15 What does that refer to?

16 A. Because when we create -- when  
17 we generate this report, we keep separate the  
18 license revenue that is not sales of products  
19 but that are income from royalties. The first  
20 two line are sales from products. That's why we  
21 make net sales. That is 174 million. Then if  
22 you go to the cost of sales, the cost of sales,  
23 it is the cost of the products, is related to  
24 the sales of the product. If you keep all  
25 together and you don't make subtotal, it could

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2 make confusion.

3 Q. So the net sales is a subtotal  
4 of the two lines above it?

5 A. Yes.

6 Q. The numbers from the last  
7 column here for 3/31/2002, that was for fiscal  
8 year-end March 2002?

9 A. Correct.

10 Q. I see there are also numbers  
11 for fiscal year-end March 2001 and March 2000.  
12 Were you involved in creating those numbers?

13 A. Absolutely, yes.

14 Q. To your knowledge, are these  
15 numbers accurate for total consolidated  
16 revenues?

17 A. Correct.

18 Q. Looking at these revenues, this  
19 incorporated what we previously talked about as  
20 consolidated revenues; correct?

21 A. Yes.

22 Q. Is there a number for what you  
23 referred to as the total wholesale revenues for  
24 the year-end 2002?

25 A. Yes.

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2 Q. Where is that number to be  
3 found?

4 A. When I joined the company, the  
5 first consolidated was at the end of '99, I say  
6 100 million. In here that was the following  
7 year, we closed at 120 million, to give you an  
8 idea. If you go to the wholesale part, page 51  
9 or DG00608, the wholesale business, I said  
10 250 million when I came. In 1998, correct one  
11 259. So the following year when we say  
12 wholesale business, referring to the fiscal  
13 year-ending March '00, wholesale, 325 million.  
14 I made this number, I recognize this number.

15 Q. So for 2002, fiscal year-end  
16 March 2002, we have to look at the very last  
17 column on that page?

18 A. Yes, last one on the right  
19 side.

20 Q. What were the total wholesale  
21 revenues as Dolce & Gabbana defines them for  
22 fiscal year-end 2002?

23 A. 552 million.

24 Q. Is that in Euro?

25 A. Euro, yes. Before when I said

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2 last year March 2009, we close at 1.6 billion.  
3 This is the relative of 1.6 billion. At the end  
4 of March 2002, the consolidated total wholesale  
5 revenues was 552 million.

6 Q. From March 2002 year-end to  
7 March 2009 year-end, there was a growth of  
8 approximately 700 million?

9 A. Correct, three times more or  
10 less, three times. 500 million --

11 Q. Actually more like a million,  
12 because you said 1.6 billion for the wholesale.

13 A. More than three times.

14 Q. Looking --

15 A. Seven years.

16 Q. Looking at this page in this  
17 chart, I see that there are columns that begin  
18 '92/'93. Does that refer -- what does that  
19 refer to?

20 A. This is total wholesale we are  
21 talking of fiscal year '92/'93. I was not  
22 there. I tried to collect all the information  
23 that we had at that time.

24 Q. What was the total?

25 A. 23 million Euro.

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2 Q. Reading across the chart, the  
3 other columns, what do these show?

4 A. The other column?

5 Q. Reading across, does this  
6 show -- what time span does it show.

7 A. It's by each fiscal year.

8 Q. How many fiscal years are there  
9 here?

10 A. Ten fiscal year.

11 Q. This covers a ten-year time  
12 span?

13 A. Yes.

14 Q. You were involved in the  
15 creation of this chart?

16 A. Yes.

17 Q. To your knowledge, are these  
18 numbers accurate?

19 A. Absolutely, yes.

20 Q. Have these numbers been audited  
21 by anybody, to your knowledge?

22 A. Starting from '99, before, no.  
23 I would say public numbers. Not in this  
24 specific condition, but the first time we made  
25 the consolidated was '99. Before that, each

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legal entity existing at that time was the --  
the information was public, in any case. This  
number I would say is coming out from a database  
of each single legal entity before '99.

Q. When you say public, what do  
you mean by that? Can anybody come into the  
offices of Dolce & Gabbana and look at the  
figures?

A. Not in Dolce & Gabbana, but  
there is a registration office in Italy in which  
you can ask, I just want to see and you can see.  
It's public.

Q. So Dolce & Gabbana -- how does  
the public registry get that information?

A. You are obliged to send to them  
the information.

Q. The time period prior to fiscal  
year 1999, can you tell me an average percent of  
revenues that was attributable to sales of goods  
in the United States?

MR. WILTON: Objection, lack  
of foundation.

Q. Let me back up. Are you able,  
through company information, to break down the

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2 numbers at all by region?

3 MR. WILTON: Objection, vague  
4 and ambiguous as to which number  
5 you're talking about.

6 Q. The numbers on -- wholesale  
7 revenue numbers?

8 A. I would say starting from '99,  
9 100 percent breaking down by country, because I  
10 was there. From '98 and '96, with a very good  
11 approximation, I would say 98 percent is  
12 correct. Before that, by country, I would say  
13 I'm not so sure they would be fully correct  
14 because I was not there.

15 Q. For the time period from 1999  
16 forward, are you able to give me an approximate  
17 percentage of revenues, wholesale revenues  
18 worldwide that was attributable to sales in the  
19 United States?

20 A. I would say yes, as a  
21 percentage we can consider -- which year you  
22 say?

23 Q. From '99 forward.

24 A. From '99 forward I would say --

25 MR. WILTON: Objection,



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2 compound.

3 A. In between 14, 15 percent.

4 Q. That's an average from the time  
5 period from '99 --

6 A. In any case, we should have the  
7 breakdown by area.

8 Q. Speaking of DG00606?

9 A. Exactly. So in this specific  
10 time I say 14, 15 was the surrounding Americas  
11 because here you asked me only for USA. In  
12 America we use also Canada and South America.  
13 It's peanuts, so -- but in here it's 16 percent.  
14 The official one -- this is Americas -- US only  
15 I would say in between 14 and 15 percent.

16 Q. Talking about fiscal years '96  
17 through '98 on average, can you tell me what,  
18 during that time frame, the percentage of  
19 wholesales revenues were that were attributable  
20 to sales in the United States?

21 A. I would say in between 11 and  
22 15.

23 Q. And for the fiscal year prior  
24 to 1995, so '95, '94, '93, I think you said you  
25 were a little less certain. Do you have a

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2 ballpark estimate for what the percentage of  
3 wholesale revenues attributable to the US would  
4 be?

5 A. Seven and 11 as a range.

6 Q. Focusing still on the same  
7 chart, DG00608, underneath the row that's  
8 labeled Ten-year Wholesale Revenues Breakdown by  
9 Product Categories, there are one, two, three,  
10 four more rows, one labeled Fragrances, Eyewear,  
11 Watches; one labeled Leather Goods and Footwear;  
12 one labeled Fabric, Accessories; and one labeled  
13 Clothing. Can you tell me what those four rows  
14 represent?

15 A. Is a breakdown of the grand  
16 total, because we wanted to give information  
17 splitted by what we call -- this is a grouping  
18 of line products. When we say, for instance,  
19 leather goods and footwear, in this line we have  
20 shoes men, shoes women, small leather goods men,  
21 small leather goods women, bags. So we try to  
22 combine all the information that we have by  
23 product line. So we said leather goods and  
24 footwear is a different product line. For  
25 instance, in fabric, accessories is what we call

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2 ties, scarf. Accessories relate to the  
3 ready-to-wear, but it's not ready-to-wear, only  
4 which we considered clothing. So clothing we  
5 put jackets, suits, skirts, trousers. We try to  
6 give the possibility to everybody to understand  
7 which is a breakdown of wholesale revenue, to  
8 give an idea on how much is the business for  
9 fragrances, eyewear, watches; products that now  
10 we are making and selling split by category. As  
11 an internal policy we decided to reclassify in  
12 leather goods and footwear, fabric accessories  
13 and clothing.

14 Q. To your knowledge, are these  
15 numbers accurate for those breakdowns?

16 A. Absolutely, yes.

17 Q. Looking at fiscal year-end  
18 2002, are you able to get a similar percent  
19 breakdown by region when you're looking at the  
20 different categories of products?

21 A. Yes.

22 Q. Do you know whether the average  
23 percentage attributable to the US is -- do you  
24 know how that breaks down across different  
25 categories?

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2 A. Yes.

3 Q. Can you tell me a little bit  
4 about --

5 A. Category US, we can try.

6 Q. Is it similar to the overall  
7 average that you give them?

8 A. I would say yes, but then we  
9 have to go through. I don't remember 2002 at  
10 the moment. I have all the information, but I  
11 don't remember at the moment exactly. I can  
12 provide if you need. At the moment I don't want  
13 to say some percent that could be incorrect.

14 Q. Looking at page DG598, page 31,  
15 on the left-hand side there is a column of text  
16 titled Distribution?

17 A. Yes.

18 Q. Were you involved in creating  
19 this text at all?

20 A. No, I was not involved.

21 Q. Do you know whether the text  
22 accurately describes the distribution as it  
23 existed in 2001?

24 MR. WILTON: Objection, lack  
25 of foundation.

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2 A. It's correct to my mind. I go  
3 with my memory. I remember year 2002, Dolce &  
4 Gabbana was around 500. D&G around 2,500. Here  
5 is written 540 and 2,300. I presume it's not  
6 far to my memory. I was involved in the meaning  
7 that when they fixed the draft, I received the  
8 draft of these documents and I double checked  
9 with all my stuff all the information. Eight  
10 years ago we double check all the information.  
11 I don't remember if -- when I say 550 is  
12 correct.

13 Q. Sitting here today, you can't  
14 tell just looking whether this is accurate?

15 A. Where you see a number, the  
16 number we double check and we say okay, that's  
17 fine. Maybe I didn't produce, someone produced,  
18 but I check. Some numbers I produce. Some  
19 other they produce, but I check. If you see a  
20 number, my department, they check and I say you  
21 can proceed. If you ask me is it now correct,  
22 do you remember, I can say we made the control,  
23 but I'm not sure -- my big number is 500 in  
24 2000. For sure this number is correct.

25 Q. Is that true just of the

1 Paolo Vannucchi  
2 texture for distribution or was that the process  
3 for the creation of the entire review?

4 A. Entire review.

5 MR. LERNER: Let's take a  
6 little break.

7 (A recess was taken.)

8 BY MR. LERNER:

9 Q. Before the break we were  
10 talking a bit about budgeting for advertising as  
11 a share of total revenue. Do you recall that?

12 A. Uh-huh.

13 Q. We discussed fiscal year-end  
14 2009. I believe you testified that the budget  
15 was approximately 7 percent of overall revenue?

16 A. Uh-huh.

17 Q. When you say "uh-huh," you have  
18 to say "yes" so the court reporter can take it.

19 A. Yes.

20 Q. But that the actual wound up  
21 closer to 8 percent; is that correct?

22 A. Yes.

23 Q. Fiscal year 2009, thinking  
24 about the time period 2009 after your arrival in  
25 1999, are you able to determine whether the

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2 actual expenditures met the budgeted advertising  
3 spend?

4 A. In the last ten years?

5 Q. Yes.

6 A. I would say yes.

7 Q. Are you able to see whether it  
8 generally did meet the budgeted figure?

9 A. We normally -- I say yes in 98  
10 percent of the case. Just to give you an  
11 example, in 2005, the company made a big party  
12 for the 20 years of the company. We didn't  
13 budget anything. We got the actuals. I didn't  
14 call Mr. Dolce and say you cannot spend money  
15 for the big party. Sometimes also for us there  
16 are some exception, but some exception is not  
17 under my control. It's under the control of the  
18 two stylists. If they decided, we do full stop.  
19 That's why I say on a normal base 7 percent is  
20 the budget and the actual, more or less in the  
21 ten years, is 7, 8, 9 with the exception of  
22 special -- very special events. From me it's  
23 impossible to say it's not in the budget, you  
24 can't spend.

25 Q. Can you think of any examples

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2 in your tenure of the special events that  
3 weren't budgeted?

4 A. For instance, in -- talking  
5 of -- we are sponsorship, sponsor of soccer team  
6 in Milano, AC Milan. We are sponsor of the  
7 national Italian teams, Italia. When we won in  
8 2000, world championship team, we had the big  
9 party at that time. We won the champion, the  
10 World Cup.

11 Q. When you were budgeting, you  
12 didn't know they were going to win.

13 A. Sometimes there is something  
14 that's very tough to --

15 Q. What about in the United  
16 States, can you think of any events in the  
17 United States that weren't budgeted?

18 A. I don't think so.

19 Q. Do you get involved with  
20 budgeting for planned special events? If in a  
21 given year you know there is going to be a  
22 special event, do you take that into account in  
23 your budgeting?

24 A. Absolutely, yes.

25 Q. Thinking about your tenure, can



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2 you think of any special events in the United  
3 States that you knew you'd have to plan for in  
4 the budget?

5 A. I don't remember the year, but  
6 we made special events in Los Angeles. We had a  
7 big party, I don't remember which was the  
8 occasion. I have to go through my papers, but  
9 there was a specific big event that we made one  
10 year in the United States. The two stylists,  
11 they came, we had the big party in a big house  
12 in Los Angeles for a movie. I don't remember  
13 exactly which was the event, but this was  
14 planned before. That year we knew that there  
15 was a big event and make the budget. Italy paid  
16 for that.

17 Q. What about store openings, are  
18 those events that are planned for in the budget?

19 A. Normally as a company policy  
20 group, we don't do any special opening when we  
21 open new stores. We just open and that's it.  
22 Maybe during the year we make some -- I'll say  
23 VIP's invitation just to promote the stores, but  
24 we don't make big party, we are here. There is  
25 no special specific event related to new opening

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2 of the stores, Dolce or D&G.

3 Q. When you say "VIP's," do you  
4 mean V-I-P?

5 A. Yes.

6 Q. Are you familiar with the VIP's  
7 that would get invitations to store openings?

8 A. Normally the list of the VIP is  
9 very consistent.

10 Q. Can you give me a "for  
11 example"?

12 A. When Italy -- when we talk  
13 about -- for instance, soccer player in Italy,  
14 they are considered VIP's, very important  
15 person, very important person because they are  
16 good customer. For instance, when we make  
17 invitation, we invite a lot of soccer player and  
18 their wives because they spend a lot of money.  
19 We invite a lot of actor, for instance, invite  
20 a lot of singer. It depends on -- the PR  
21 department, they are very active in this kind of  
22 activity.

23 Q. What about in the United  
24 States? Can you give me examples of VIP's who  
25 are invited to stores in the United States?

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2 MR. WILTON: Objection, vague  
3 as to time.

4 Q. I think you said there is a  
5 relatively consistent list. Is that true for  
6 store openings during your tenure in the United  
7 States?

8 A. PR activity in Italy, they are  
9 involved during the Oscar nights. We try to  
10 dress the actor and the actress during that  
11 period. I know there is a lot of -- they try to  
12 make invitation to the stores, to make  
13 relationship with them. Specifically the name,  
14 I don't know exactly which is the person. We  
15 have the full list. There is a database with  
16 the full list of the VIP. Also the VIP, they  
17 have discount in the stores. That's why we know  
18 perfectly the numbers and sometimes the name.

19 MR. LERNER: Let's mark this  
20 as Exhibit B.

21 (Document Bates stamped  
22 DG00337 marked Exhibit B for  
23 identification.)

24 Q. I'll show you what's been  
25 marked Exhibit B. It's a document with Bates

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2 identification number DG00337. I also just note  
3 it's marked as Confidential. Have you seen this  
4 document before?

5 A. Yes.

6 Q. What is this?

7 A. This is the -- I would say what  
8 we call net sales, net sales on which we make  
9 and double check the calculation for the  
10 royalties that we got from the licensee. Those  
11 are sales splitted by quarter, year and by brand  
12 that related to sunglasses, Dolce & Gabbana and  
13 D&G in USA.

14 Q. Did you create this document?

15 A. Not my office, because it's  
16 much more something that is generated by  
17 licensing department and the accounting  
18 department. We are in the middle, double  
19 checking in order to see the amount is correct  
20 and the calculation is correct. It's not done  
21 by my staff or my department.

22 Q. Have you reviewed these  
23 numbers?

24 A. Absolutely.

25 Q. How do you double check the

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2 numbers?

3 A. This is coming basically  
4 from -- there is an agreement between Dolce &  
5 Gabbana and the licensing according to a certain  
6 condition; meaning there is a base on which week  
7 we make the calculation in order to determine  
8 which is the correct royalties or commission.

9 So the double check that we  
10 make, we don't argue about the sales. We check  
11 that the sale -- first of all, when we receive  
12 the actual, we compare the actual with the  
13 budget in order to understand if the number, it  
14 makes sense. When we make the comparison and we  
15 understand which is the difference, plus or  
16 minus, then we double check the correct  
17 application of the percentage on this. So I  
18 recognize this number because this number then  
19 has been booked, the royalties revenue in the  
20 accounting and the accounting has been audited.

21 In addition to that, we know  
22 that we ask confirmation to all the licensee in  
23 order to double check the amount given.

24 Q. So this covers the time period  
25 from 1997 to 2006; is that right?

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2 A. Correct.

3 Q. Do you know who the licensee  
4 was for eyewear at the time?

5 A. 1998 was Marcolin.

6 Q. Was it Marcolin after this  
7 entire period?

8 A. Marcolin was '97. '98, '99,  
9 2000 we moved to Luxottica. I'm not sure, 2003,  
10 2004 we moved to Luxottica. Here you have, in  
11 this total, not exactly the fiscal year, because  
12 this is a calendar year. It's the full calendar  
13 year, but our fiscal year is from the 1st of  
14 April to the end of March. When I say is  
15 correct, I can say is correct each single  
16 quarter. If you tell me is correct the total  
17 year, I say correct the total calendar year.  
18 But in the fiscal year I should move, eliminate  
19 one quarter and to add up -- add up a quarter.  
20 We have to reconcile in that way.

21 Q. So for you fiscal year 1998  
22 would include the second quarter '98 -- fiscal  
23 year '99 would include the second quarter '98,  
24 third quarter '98, fourth quarter '98 and first  
25 quarter '99?

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2 A. Correct. Each single quarter  
3 is fine. The total is -- we have to readjust to  
4 put it as you told.

5 Q. In 1999, the year that you  
6 started, what was the calendar year revenues for  
7 sale of eyewear under the Dolce line?

8 A. Correct.

9 Q. What was that total for 1999?

10 A. Total for 1999 Dolce is [REDACTED]  
11 [REDACTED], calendar year.

12 Q. So if I wanted to know the  
13 total calendar year revenues for Dolce & Gabbana  
14 brand licensed eyewear, I would look at this  
15 fifth column, the Anno Euro?

16 A. Uh-huh.

17 Q. That would tell me the total  
18 sales for any calendar year that's represented  
19 '97 through 2006?

20 A. Can you repeat?

21 Q. So if I wanted to know for any  
22 given calendar year the total, I would look at  
23 for Dolce & Gabbana, the Dolce line, I would  
24 look at the fifth column. It's labeled Anno.  
25 Does that stand for annual or year?

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2 A. Yes.

3 Q. So is it correct to say there  
4 was some -- scratch that.

5 A. Here you don't have the big  
6 total, Dolce & Gabbana plus D&G.

7 Q. So if I wanted a total for  
8 eyeware, I would have to add the fifth column  
9 with the tenth column?

10 A. Correct.

11 Q. So the two columns labeled Anno  
12 for any given year?

13 A. That's correct.

14 Q. In 1998, can you tell me what  
15 the approximate sales revenues were in the  
16 United States for licensed eyewear for both  
17 lines?

18 A. [REDACTED]

19 [REDACTED]

20 Q. In Euros?

21 A. Yes.

22 Q. For calendar year-end 2006,  
23 what was the total for both lines?

24 A. [REDACTED]

25 [REDACTED]



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2 Euro.

3 Q. Approximately how much growth  
4 is that over a ten-year period?

5 A. From --

6 Q. From '98 to -- not quite ten  
7 years, eight years, from '98 to 2006?

8 A. [REDACTED]

9 Q. In your role as Director of  
10 Planning and Control, do you have occasion to  
11 analyze revenues of competitors of Dolce &  
12 Gabbana?

13 A. Sometimes, yes.

14 Q. Who do you consider the  
15 competitors of Dolce & Gabbana?

16 A. It depends on the product. If  
17 you are talking of ready-to-wear, I would say  
18 Armani, Giorgio Armani, Prada and Gucci.

19 Q. That's presently who you would  
20 consider the competitors?

21 A. And for the accessories, shoes,  
22 bags and men's and women's, I would say Prada,  
23 Gucci, Yves Saint Laurent, Bottega Veneta.  
24 Bottega Veneta is one of the Gucci brand,  
25 belongs to the Gucci group.

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2 Q. You're talking about right now  
3 current competitors?

4 A. Yes.

5 Q. Is the list of competitors for  
6 ready-to-wear -- was that similar when you  
7 joined the company in 1999?

8 A. I would say yes.

9 Q. What about for the leather  
10 accessories?

11 A. Yes.

12 Q. Presently who do you consider  
13 the competitors for eyewear?

14 A. Armani, Gucci, Prada. That's  
15 it. I want to add another one. Now I'm  
16 thinking of Dolce & Gabbana. If I'm thinking of  
17 D&G brand, I will add also Diesel.

18 Q. For what area of goods?

19 A. For both, ready-to-wear and  
20 accessories, as competitors of D&G brand.

21 Q. Whereas the other competitors  
22 were competitors for Dolce & Gabbana?

23 A. For Dolce & Gabbana and D&G.  
24 Diesel is a competitor for D&G only. It's much  
25 more jeans-oriented. So for certain category I

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2 will compare Diesel.

3 Q. What about for fabric  
4 accessories, who do you currently consider  
5 competitors of Dolce & Gabbana?

6 A. Giorgio Armani, Gucci, Prada.  
7 Finally, fragrances. I didn't mention for Dolce  
8 & Gabbana, Chanel.

9 Q. For what categories?

10 A. Ready-to-wear. For fragrance I  
11 would say Armani, Gucci, Prada and Chanel. Same  
12 for the eyewear.

13 Q. You would add Chanel to the  
14 list of eyewear competitors?

15 A. Yes.

16 Q. Calendar year 2006, at that  
17 time did you have an opportunity to compare  
18 eyewear sales for Dolce & Gabbana and the D&G  
19 branded products in the US with the revenues for  
20 competitors for eyewear?

21 A. No.

22 Q. At any time during the last ten  
23 years, have you had an opportunity to compare  
24 eyewear revenues for the Dolce & Gabbana lines  
25 with eyewear revenues for any competitors?

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2 A. No.

3 Q. What about for ready-to-wear?

4 A. I would say yes.

5 Q. Do you recall at what points in  
6 time you had that opportunity?

7 A. Sometimes when we have to make  
8 some group presentation, we sometimes need to  
9 collect some information from what the  
10 competitors are; also to understand how big is  
11 the company, how much represents the  
12 ready-to-wear. Sometimes it's not easy to  
13 collect information. In Italy as we present --  
14 everybody presenting information in a certain  
15 way on which you have the big, big numbers, it's  
16 not very clear by what is ready-to-wear, what is  
17 whatever. Sometimes we collect information here  
18 and there in some -- maybe we know people that  
19 is coming from there with the last information,  
20 so we use as internal use, confidential  
21 information. But sometimes also the big total  
22 is correct. I would say the size of the  
23 company, but when you go specific line by line,  
24 you want to understand which is man, which is  
25 woman or whatever by season. It's a little bit

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2 complicated.

3 Q. Looking at 1999, when you  
4 joined the company at that time, did you have  
5 occasion to compare Dolce & Gabbana's company  
6 size to the company size of Armani for  
7 ready-to-wear?

8 MR. WILTON: Objection, vague  
9 as to size.

10 A. I would say as entire company,  
11 yes. In specific ready-to-wear, I mean, I was  
12 not sure that -- number was related only to  
13 ready-to-wear.

14 Q. When you say size, you are  
15 talking overall company revenues?

16 A. Just to give you an example,  
17 this year we close at 1.2 billion. I know that  
18 Prada is 1.6 billion. Armani is 1.6 billion.  
19 The composition of the 1.6 billion, maybe you  
20 can understand how much is retail, how much is  
21 the licensing, what is ready-to-wear. It  
22 depends on how they want to communicate  
23 information. They are not a public company.  
24 Private company, they need to prepare the  
25 information as a big total. Big total is

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2 public. You don't have all the details like  
3 public company. Sometimes there are assumption.  
4 We go by brand, by legal entity. We try to put  
5 together all the numbers, but we do this kind of  
6 job. So sometimes I say, okay, ready-to-wear  
7 for Giorgio Armani equal to maybe 70 percent of  
8 the business, because this is the assumption.  
9 It's not certified on a piece of paper because  
10 we don't have details -- detailed information.

11 Q. You mentioned Prada is  
12 currently 1.6 consolidated revenues?

13 A. Yes.

14 Q. Do you have any way of  
15 estimating the percentage of those revenues  
16 attributable to Prada sales in the United  
17 States?

18 A. No.

19 Q. What about for Armani?

20 A. I can't assume. I speak with  
21 many people. They tell me Prada is making a  
22 certain business in the US, but to say it's  
23 correct is worse information that -- I have this  
24 information, but not official information.  
25 Sometimes you get this information when you

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2 interview people. The person in charge in  
3 retail activity, sometimes they talk. You ask,  
4 they talk. You ask, they talk, you write. This  
5 is your database, which is the source of the  
6 database. Information is flying.

7 Q. I think you mentioned back in  
8 1999 when you started, you felt that the  
9 competitors you listed for ready-to-wear were  
10 similar as to what they are today. Is that also  
11 true for the competitors you mentioned for  
12 leather accessories?

13 A. Yes.

14 Q. What about for eyewear?

15 A. Same, yes.

16 Q. What about for fragrances?

17 A. Same.

18 (An off the record  
19 discussion took place.)

20 (A recess was taken.)

21 (Lunch recess: 12:38 p.m.)

22 (Resumed: 2:02 p.m.)

23 P A O L O V A N N U C C H I, having been  
24 previously duly sworn, was examined and testified  
25 further as follows:

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2 CONTINUED EXAMINATION

3 BY MR. LERNER:

4 Q. Back on the record,  
5 Mr. Vannucchi. I wanted to go back to Exhibit A  
6 that we discussed a little earlier this morning  
7 for a minute and turn your attention to DG00593,  
8 page 20 internally. This was where there was  
9 the chart on communications investments. I  
10 think you testified earlier that that investment  
11 was your company's terminology for advertising  
12 expenditures; is that right?

13 A. Yes.

14 Q. Thinking about this  
15 expenditure, is there in fact anything else that  
16 goes into the expenditures beyond just  
17 advertising media buys?

18 A. Yes.

19 Q. What else goes into it?

20 A. For instance, we include what  
21 we call the books activity, meaning that in the  
22 last, I'd say, seven years, we made nine books.  
23 When I say we made nine books, the books for us  
24 is mainly something that we produce which inside  
25 we have many different subject or pictures.

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2 Each single book -- as an example, we made books  
3 we call Milan, the name of the soccer team.  
4 Inside the books there is picture of all the  
5 players dressed Dolce & Gabbana. We made this  
6 book and this book we distribute to -- and we  
7 sell through our stores or we use -- like  
8 company give to the VIP. If you go inside one  
9 of our stores, you can find books there.

10 Another book was Hollywood,  
11 Hollywood stars. Another book was music. Music  
12 we had the picture of all the star, singer,  
13 dressed Dolce & Gabbana. We had another one we  
14 call Italia when we won the world championship  
15 and the picture with the party when we win the  
16 cup, all dressed in Dolce & Gabbana.

17 We made the book for the  
18 20-year anniversary of the company. When we had  
19 the big party, we gave as a gift to the press,  
20 to the major guests. It was sort of a  
21 communication tool that we used in the last  
22 year.

23 Q. When was the 20-year  
24 anniversary?

25 A. 2005.

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2 Q. That's the 20-year anniversary  
3 of what?

4 A. Of the company. We established  
5 the company 1985 and 2005 was the 20 years of  
6 the company. We had a big party in Milano.

7 Q. That's the company's founding  
8 in Italy?

9 A. Yes.

10 Q. You referred to Hollywood stars  
11 pictured in the book "Hollywood." What's the  
12 connection to those stars and Dolce & Gabbana,  
13 is there any?

14 A. Because all the picture with  
15 the stars, all the stars are with Dolce &  
16 Gabbana dresses. You have picture of famous  
17 stars, actor, actress wearing Dolce & Gabbana.

18 Q. Do you know were those pictures  
19 taken specifically for the book?

20 A. I don't think so. Some of the  
21 picture, yes. Some other, not. For instance,  
22 when we made for the Milan, we went to the  
23 players and we took the picture for the book.  
24 This was specific, the book created for the  
25 Milan soccer team. Also then -- because we

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2 are -- Dolce & Gabbana is a sponsor of the  
3 Milan, they use and we use to distribute -- we  
4 are also selling in -- in Italy, Milan is very  
5 famous. We sold not many, but we sold books  
6 through our stores.

7 Q. Is that worldwide through the  
8 retail stores?

9 A. Worldwide.

10 Q. Is that both the Dolce stores  
11 and the D&G stores?

12 A. Only Dolce.

13 Q. In the United States --

14 A. You can find in Madison, in  
15 Los Angeles, you can find in Bal Harbour and in  
16 Las Vegas.

17 Q. What about the music book? You  
18 mentioned also there are pictures of music stars  
19 in that book. What's the connection of the  
20 music stars to Dolce & Gabbana?

21 A. Same story. The activity of  
22 our PR and -- PR department is they try to make  
23 contact with the singer and they try to dress  
24 the singer during their concert. Madonna was an  
25 example, but we have many other example. Also

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2 very recently Italian singer on which -- through  
3 the picture -- we made the book, but through the  
4 book we go on each magazine and newspaper,  
5 whatever, due to the fact in this specific day  
6 there is a concert.

7 Q. You mentioned PR. Is PR  
8 separate from advertising?

9 A. Yes.

10 Q. Does that have a separate  
11 budget?

12 A. A separate budget, yes.

13 Q. Is that included within the  
14 communication investments budget?

15 A. Yes, yes.

16 Q. So in addition to advertising  
17 media buy, book publishing, PR activities are  
18 also included by the communication investment  
19 figures?

20 A. Yes. I want to mention another  
21 expense that we consider not in this 2002, but  
22 at the present, is the Internet site. Dolce &  
23 Gabbana for us now is a communication exist. In  
24 2002 it didn't exist. At the moment, when we  
25 prepare the information, in addition to the

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2 media, to the VIP and to the rest of the  
3 communication, we add up also the cost to keep  
4 alive the site www.Dolce&Gabbana.

5 Q. Do you know when the Internet  
6 site launched?

7 A. 2004. This year we launch  
8 another one. It is called Swide.com. It  
9 launched in December.

10 Q. What does "Swide" mean?

11 A. The name was decided by  
12 Mr. Stefano Gabbana. He wanted to find a name  
13 with no meaning but very easy to pronounce.  
14 Swide, Swide, there is no meaning about that.  
15 For this specific project we have a separate  
16 company on which -- by the way, I am -- in Italy  
17 if you have the official site, you can do -- and  
18 all the costs are inside the PR expenses, inside  
19 Dolce & Gabbana S.R.L.

20 But in Swide we also write  
21 articles for Dolce & Gabbana. So we had to  
22 create a different company. Of this company I  
23 am the president, because in Italy you are,  
24 under the law, the editorial law -- because when  
25 you write, you have to follow very strict

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2 procedures. We decided to make a new  
3 communication channel of which 90 percent of the  
4 article are Dolce & Gabbana. So starting from  
5 the next annual review, we will include also  
6 that cost. So every time we add up new  
7 communication tools, this amount.

8 Q. Is your office -- for planning  
9 purposes are you involved in budgeting  
10 allocation as between those different areas of  
11 the communications budget, if you understand  
12 what I mean? You are involved in budgeting the  
13 overall communications investment. Are you also  
14 involved in budgeting, how much goes to PR, how  
15 much goes to advertising?

16 A. Yes, yes, yes.

17 Q. Can you give me a sense for  
18 fiscal year 2009 what kind of split there is?

19 A. It depends on -- first of all,  
20 we should understand the idea of the two  
21 stylists. That is not easy to get the idea in  
22 the proper way. As soon as we understand that,  
23 they are thinking or working on some new or  
24 existing project, we try to quantify how much is  
25 the cost of that project. We put in relation

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2 the total cost of that project with the total  
3 7 percent of the total budget that we include  
4 media and other for special projects. So when I  
5 say we try to make a budget, 7 percent should  
6 cover everything. Then we know if one year we  
7 have -- if we have very big project on which we  
8 know that in any case we have to do, then we  
9 make allocation in a way the media plan will be  
10 lower, because the total should always be  
11 7 percent. That's why we play with the  
12 allocation and share the allocation with the  
13 Iria (ph) and the advertising department in  
14 order to, from my side, to be sure the 7 percent  
15 is a safe percentage to cover all the expenses.  
16 We have to stay within the 7 percent as a  
17 budget.

18 Q. For the fiscal year that just  
19 ended, March 2009, can you give me a sense of  
20 what the allocation was for budgeting as between  
21 PR and advertising?

22 A. I would say if 100 is a total  
23 cost percentage, I would say 90 is media plan  
24 and 10 percent is I would say other.

25 Q. So "other" may include PR,  
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2 books?

3 A. Internet, everything.

4 Ninety percent of the money we spend in  
5 communication is still traditional media tools,  
6 magazine, newspaper, TV and what we call  
7 afficione (ph), that means big board.

8 Q. Billboard? In fiscal year 2009  
9 in the United States, do you know whether there  
10 was any television advertising?

11 A. I don't know.

12 Q. How about fiscal year 2008?

13 A. I don't know. Specific in US,  
14 I don't know. In Italy for sure, because I saw.  
15 Here I'm not sure.

16 Q. You budget as between media  
17 plan and other, but you don't get involved in  
18 budgeting within that media plan?

19 A. (No audible response heard.)

20 Q. That's for the advertising  
21 department to do?

22 A. I'm not involved. To me when I  
23 fix the total amount, if the total amount is  
24 100, I don't care if they spend 100 in one  
25 country or they spend 100 in 100 countries.

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2 When I go and check the actual, if it's 100,  
3 it's 100. To me it's done. If you spend in  
4 Germany, French, USA, magazine, which magazine,  
5 I don't go so deep. I know they have all the  
6 database. If I want to check, I can do. I  
7 don't normally go so deep in the United States  
8 during my budget process.

9 MR. LERNER: Let's mark this  
10 as C.

11 (USA Ready-to-wear and  
12 Licenses Figures marked Exhibit C  
13 for identification.)

14 Q. The court reporter has handed  
15 you Exhibit C which has the Bates no. DG00579.  
16 I'll ask you to look at that document and  
17 specifically the bottom of that -- the bottom  
18 chart. Do you know what that chart represents?

19 A. Yes.

20 Q. What is it?

21 A. Sales generated in USA split by  
22 ready-to-wear and licenses; ready-to-wear by  
23 brand, Dolce & Gabbana, D&G, from the fiscal  
24 year '94, ending fiscal year 2008. I want to  
25 point out the number of ready-to-wear here is

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2 not incorrect, but we have to consider the three  
3 zeros is missing. If you take fiscal year '08,  
4 it's not 108,000 but is 108 million. Three  
5 zeros is missing. License is correct,  
6 107 million.

7 Q. Are those in Dollars or Euros?

8 A. These are in Euro.

9 Q. Focusing your attention on the  
10 licenses, the bottom chart, what time period  
11 does that cover?

12 A. Fragrance and eyewear.  
13 Fragrance since 1994. Eyewear since 1997.

14 Q. Up to when?

15 A. 2008 for both, for Dolce, for  
16 D&G. Fragrances since 1999. In 2008 eyewear.  
17 1998 ending 2008 times -- and jewels times 2005,  
18 2008 and jewels, 2007, 2008.

19 Q. The years in the bottom portion  
20 of this document for the licenses, are these  
21 fiscal years or calendar years, if you know?

22 A. This is fiscal year. Sorry,  
23 fiscal year ready-to-wear. The license is  
24 calendar year, also written there.

25 Q. Do you know who prepared these

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2 figures?

3 A. Ready-to-wear part is my office  
4 that prepared, specifically being prepared by my  
5 office. I know exactly where all the  
6 information is coming from. The other one is  
7 prepared by the licensing office. This part is  
8 linked and checked with the accounting  
9 department. I know perfectly. We double check.  
10 I don't do, but I check. The amount is correct.

11 Q. When you say double check, is  
12 that the same process you are double checking  
13 that you described earlier in connection with  
14 Exhibit P?

15 A. Yes.

16 Q. For the year you started in  
17 1999, that calendar year, if I wanted to know  
18 the total sales in the United States by the  
19 licensee for eyewear in the Dolce line, I could  
20 simply look at that Eyewear row for 1999? I see  
21 it's 3,477,000 some odd Euro; is that correct?

22 A. Correct.

23 Q. Is that number a base for  
24 something that your office does, your office  
25 calculates?

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2 A. Yes.

3 Q. What?

4 A. All information is split here  
5 by quarter. (Indicating.) Each single quarter  
6 we double check because, once again, this is  
7 calendar. Then we have to put in fiscal year.  
8 So we have to go see the right quarter. That's  
9 why we have to check quarter by quarter.

10 Q. Once you check quarter by  
11 quarter, what does your office do with this  
12 figure?

13 A. We see if the application of  
14 the percentage related to the agreement is  
15 correct and if the royalties income is right.  
16 It's a double check. It's something that the  
17 licensing office, they do. The accounting, they  
18 are linked. They do once again and we double  
19 check again just to see. In addition to that, I  
20 compare the actual with the budget just to be  
21 sure it makes sense in the big total.

22 Q. So, to your knowledge, do the  
23 figures in the bottom portion of this chart  
24 match? Are they accurate as far as the actuals  
25 for that time period?

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2 A. Yes.

3 MR. LERNER: Let's mark this  
4 as D.

5 (Annual Review 02 marked  
6 Exhibit D for identification.)

7 Q. The court reporter has handed  
8 you Exhibit D which has on the document -- that  
9 has on its front Annual Review and the numbers  
10 DG00609 through DG00640. Do you recognize this  
11 document?

12 A. Yes.

13 Q. What is it?

14 A. It's our annual review number  
15 2, the second edition of the annual review that  
16 we made the following year.

17 Q. Meaning the year following  
18 Exhibit A?

19 A. Yes.

20 Q. There is an oddity here. I  
21 draw your attention to page DG00621. Is that  
22 Italian, that wording?

23 A. Yes.

24 Q. What does that mean?

25 A. "Inseriere" is to put in. Owe

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2 [that have] I don't is number 8.

3 I-N-S-E-R-I-R-E. When we printed, maybe this is  
4 something related to some picture. It seems  
5 that was a note on the original draft saying  
6 insert, I imagine, picture somewhere.

7 Q. So I note --

8 A. The Esecutivo,  
9 E-S-E-C-U-T-I-V-O, A, P-A-R-T-E, is an article  
10 that's -- "A parte" is the side, a side.

11 Q. Take a look at the page before  
12 and after. I note within the document numbers,  
13 it goes from 23 to 26.

14 A. Uh-huh.

15 Q. Can you tell other than that  
16 page whether this is actually a copy of the  
17 final annual review or an earlier draft?

18 A. It's correct.

19 Q. So this is a --

20 A. I presume that -- I don't know  
21 why this page is in here, but the final one is  
22 exactly the same.

23 Q. Other than that page, this, to  
24 your knowledge, is a copy of the second annual  
25 review?

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2 A. Yes.

3 Q. Were you involved in the  
4 creation of this annual review?

5 A. As I explained before, I am  
6 involved for all the financial information on  
7 which I provide financial information and I  
8 double check the financial information. When I  
9 receive back the draft before the final version  
10 on which I don't take care about text, I check  
11 numbers inside the text and they confirm and I  
12 say it's correct.

13 Q. Looking at this, to your  
14 knowledge, are the financial figures in this  
15 document correct?

16 A. Yes.

17 MR. LERNER: Let's mark this  
18 Exhibit E.

19 (Investimenti Diretti USA  
20 1998-2009 marked Exhibit E for  
21 identification.)

22 Q. The court reporter has handed  
23 you what's been marked E. It has an  
24 identification number DG00577.

25 A. Yes.

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2 Q. I'll ask you to look at the  
3 document. Do you know what this document  
4 represents?

5 A. Yes.

6 Q. What does it represent?

7 A. All investments in the USA in  
8 the period 1998 up to 2009 in advertising split  
9 by brand, D&G and Dolce & Gabbana.

10 Q. Did you prepare this document?

11 A. Not myself. This has been  
12 prepared by the Advertising Department, but I'm  
13 very familiar with this document.

14 Q. Is this a document that the  
15 Advertising Department prepares for the Planning  
16 and Control Department in the ordinary course of  
17 business?

18 A. Normally I know that we have,  
19 but I don't ask because this is by country. So  
20 I know that this kind of information they all  
21 have by each single country. As I explained  
22 before, to me I go through the big total of the  
23 expense. I know that they have all the  
24 breakdowns. Sometimes we make some decision.  
25 So I have access to that database. I don't do,

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2 but I have access. The big total is what I  
3 control and what I check. So this is of -- of  
4 the big grand total. This is USA only.

5 Q. I think you testified  
6 earlier -- do you know whether the years here  
7 are calendar years or fiscal years?

8 A. Fiscal year.

9 Q. As you sit here today, are you  
10 able to tell whether these numbers are accurate  
11 advertising spend or communications investment  
12 into the United States for the ten-year period?

13 A. Yes, they're correct.

14 Q. In your position as Director of  
15 Planning and Control, do you have occasion to  
16 analyze the advertising expenditures of Dolce &  
17 Gabbana's competitors?

18 A. I'll say yes, because I receive  
19 some information from the Advertising  
20 Department. So they collect from external  
21 consultant, external first. They make  
22 advertising analysis. Sometimes I receive  
23 analysis, which you can see how much we spend  
24 compared to the rest of the competitors. This  
25 company, to make analysis, they say, okay, I

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2 make the analysis on these twenty magazine. On  
3 these magazine I have the cost for each single  
4 page. I control what is Dolce & Gabbana, how  
5 many pages. They make sort of a ranking. You  
6 can see what is your position compared to the  
7 rest of the competitors. Sometimes I ask for my  
8 personal reason. That is not something that I  
9 normally do.

10 Q. When you ask for that  
11 information, how do you use it? Does that get  
12 used by you in connection with planning and  
13 control?

14 A. Sometimes when we have to fix  
15 the famous 7 percent on which the 7 percent come  
16 out in amount, I want to be sure that if I  
17 compare my amount with the rest of my  
18 competitors, we are almost in line.

19 Q. Have you done that in the last  
20 couple of fiscal years?

21 A. Yes.

22 Q. Do you have a sense of how  
23 Dolce compares to the competitors you mentioned  
24 as to --

25 A. If you compare Dolce & Gabbana

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2 to our major competitors like Gucci, Prada or  
3 Giorgio Armani, at the global level our 7  
4 percent is exactly in the middle between what  
5 they're doing, the other one. All of the  
6 company are in the middle. The range is 5 to  
7 10 percent. So we are 7. Sometimes when we  
8 make the analysis, we see what the other, they  
9 make.

10 Q. That's a percent of revenue  
11 that you're talking about worldwide?

12 A. Worldwide.

13 Q. The actual dollars may be  
14 different from you to your competitors if they  
15 have greater revenue?

16 A. Yes.

17 Q. For the major competitors,  
18 let's say Prada in 2009, I think you mentioned  
19 1.6 billion worldwide revenue compared to 1.2  
20 for Dolce & Gabbana?

21 A. Yes.

22 Q. And the same for Armani?

23 A. Correct. When I say '09, for  
24 us '09 is because our fiscal year is ending  
25 March '09. For them is -- because their fiscal

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2 year for Armani is ending December. So the  
3 fiscal year and calendar year is the same. So  
4 sometimes I compare -- when I say 1.6 billion,  
5 the comparison is for them end of December '08  
6 with our ending March '09, especially in the  
7 last year on which for everybody the business  
8 went down, especially in January, February and  
9 March. So they have good month because they  
10 have the first quarter '08, but we started our  
11 fiscal year in April. We finish in March.  
12 January, February, March everybody went down,  
13 all the industry went down. So if you compare  
14 our 1.2 billion with their 1.6 billion, the  
15 effect is that they lose business, we lose  
16 business. We lose business in the first -- they  
17 will have the same effect this year. I don't  
18 know if you understand.

19 Q. Their fiscal year is slightly  
20 different than your fiscal year. It's a little  
21 apples to oranges comparison in terms of the  
22 time frame is what you're saying?

23 A. Yes.

24 Q. Given there is that little  
25 difference in the fiscal year, is your sense for

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2 the last calendar year that the advertising  
3 spend as a percentage of revenue is relatively  
4 comparable as between Dolce & Gabbana and its  
5 competitors?

6 A. I would say yes.

7 Q. As far as real dollars, do you  
8 think it's also potentially comparable as  
9 between Dolce & Gabbana's competitors when you  
10 take into account the drop in revenue that they  
11 didn't experience in the 2008 fiscal year that  
12 Dolce & Gabbana actually experiences in the 2008  
13 fiscal year?

14 A. Correct. This was through  
15 until March '09 or December '08. I don't know  
16 what will happen this fiscal year. The water  
17 changed. In our case, we cut the advertising  
18 because everybody is cutting advertising budget.  
19 Business for everybody is going down.

20 Q. Thinking back to 1999 when you  
21 first started, did you undertake at that time  
22 any kind of comparison as between Dolce &  
23 Gabbana's ad spend budget and its competitors'  
24 ad spend budget?

25 A. At that time I didn't do.

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2 MR. LERNER: At this time I  
3 move for admission of Exhibits A  
4 through E that have been marked. I  
5 don't recall if I recalled to do that  
6 yesterday for the four exhibits or so  
7 that were marked, so I seek to do  
8 that now. I can hand the witness off  
9 to you, Mr. Wilton.

10 MR. WILTON: Subject to the  
11 objections of the admission of those  
12 exhibits.

13 (An off the record  
14 discussion took place.)

15 (A recess was taken.)

16 EXAMINATION

17 BY MR. WILTON:

18 Q. Good afternoon, Mr. Vannucchi.

19 A. Good afternoon.

20 Q. I'm Ken Wilton. I know we met  
21 yesterday, but I represent Jay-Y Enterprises  
22 Co., Inc. in this proceeding. It's my turn to  
23 ask you a few questions.

24 Prior to yesterday, had you  
25 ever heard of Jay-Y?

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2 A. No. Meaning before to come  
3 here, I know that there is something between  
4 Dolce & Gabbana and the name that you said, but  
5 before, ten days ago, never in my life.

6 Q. Are you aware of what kind of  
7 proceeding this is?

8 A. Yes.

9 Q. What do you understand it to  
10 be?

11 A. What I have understood is that  
12 there is a company with the name that you said  
13 that is making sunglasses with the brand DG and  
14 sells sunglasses in US and in some other parts  
15 of the world.

16 Q. Are you aware of any companies  
17 other than Dolce & Gabbana and my client who are  
18 making sunglasses with DG on the side?

19 A. No.

20 Q. Are you involved at all in  
21 Dolce & Gabbana's efforts to stop what it  
22 considers to be infringing uses of its  
23 trademarks?

24 A. No.

25 Q. Are you involved in Dolce &

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2 Gabbana's efforts to protect its trademarks?

3 MR. LERNER: Objection. I'm  
4 going to object to the line. I'm  
5 going to give you some leeway because  
6 I know we talked about you going into  
7 some areas that maybe address your  
8 counterclaims, but this is outside of  
9 the scope, I think, of what was  
10 directly addressed with this witness,  
11 but we'll see how we go it.

12 A. Can you repeat, please?

13 Q. Are you involved in the  
14 protection of Dolce & Gabbana's trademarks?

15 A. No.

16 Q. You mentioned at the beginning  
17 of your testimony an entity called Gado,  
18 G-A-D-O?

19 A. Yes.

20 Q. You said Gado was formed in  
21 2004?

22 A. Yes.

23 Q. And in 2004, do you know where  
24 Gado was incorporated?

25 A. The Gado company was

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2 established in 2004. Before it exists before  
3 2004.

4 Q. Do you know in what country it  
5 was incorporated?

6 A. Luxembourg.

7 Q. Do you know -- how do you know  
8 that?

9 A. When I make my budget, my  
10 starting point is the legal entity. I have a  
11 mapping of all the legal entity. The name at  
12 the time was called Gado Luxembourg. That's why  
13 I know that.

14 Q. Were you involved in the  
15 formation -- strike that. What does Gado  
16 Luxembourg do?

17 A. I would say the main --

18 MR. LERNER: Objection. You  
19 can answer.

20 A. The main activity is that -- is  
21 the owner of the two brands, Dolce & Gabbana and  
22 D&G.

23 Q. When you say owner of the two  
24 brands, are you referring to the overall company  
25 or the trademarks or something else?

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1 Paolo Vannucchi

2 A. Trademark, Dolce & Gabbana and  
3 D&G.

4 Q. Were you involved in the  
5 formation of Gado?

6 A. No.

7 Q. Were you involved in the  
8 decision to form Gado?

9 A. No.

10 Q. Were you involved in any  
11 assignment of trademark rights to or from Gado?

12 A. No.

13 Q. That's not something that's  
14 within your position at the company, right?

15 A. Correct.

16 Q. Is Gado still in Luxembourg?

17 A. We bring back to Italy. It's  
18 in Italy at the moment.

19 Q. So it's now an Italian  
20 corporation?

21 A. Yes.

22 Q. Previously it was a Luxembourg  
23 corporation?

24 MR. LERNER: Objection.

25 Q. Have you seen any -- strike

1 Paolo Vannucchi

2 that. Is it your understanding that the -- does  
3 a Luxembourg corporation still exist?

4 A. No.

5 Q. Do you have any knowledge of --  
6 well, skip that. In 2004 which entities paid  
7 royalties to Gado Luxembourg?

8 A. Dolce & Gabbana S.R.L.

9 Q. When did Dolce & Gabbana S.R.L.  
10 stop paying royalties to Gado Luxembourg?

11 MR. LERNER: Objection.

12 A. We never stop, meaning we just  
13 move Gado from Luxembourg to Italy, so the  
14 payment to Gado still existing. We just change  
15 the country of the company. We never stop to  
16 pay Gado. It's a new company in a different  
17 country.

18 Q. It's a new company in a  
19 different country?

20 A. Yes, it's in Italy. Before it  
21 was in -- we never stop. As soon as we  
22 establish a new company, instead of paying Gado  
23 Luxembourg, we pay Gado Italy.

24 Q. When was Gado Italy  
25 established?

1 Paolo Vannucchi

2 A. Gado Italy, it were established  
3 2007.

4 Q. Is Gado Italy also an S.R.L.  
5 type of corporation?

6 MR. LERNER: Objection.

7 A. Gado Italy is fully owned by  
8 Dolce & Gabbana S.R.L. 100 percent. It's a  
9 separate company.

10 Q. So it's a subsidiary of Dolce &  
11 Gabbana S.R.L.?

12 A. Yes.

13 Q. Was Gado Luxembourg also a  
14 subsidiary of Dolce & Gabbana S.R.L.?

15 MR. LERNER: Objection.

16 A. I don't think so.

17 Q. You don't know one way or the  
18 other?

19 A. I don't remember.

20 Q. When you prepare the  
21 consolidated -- I shouldn't quite say it that  
22 way because -- you don't actually prepare the  
23 consolidated financial statements, do you?

24 A. No.

25 Q. But you're heavily involved in

1 Paolo Vannucchi

2 the preparation?

3 A. Yes.

4 Q. When those financial statements  
5 are prepared, let's start with 2000 -- fiscal  
6 year ended March 31, 2009, was Gado's S.R.L.  
7 income included in the consolidated financial  
8 statements?

9 A. Yes.

10 Q. In 2006, fiscal year-ended  
11 March 31, 2006, was Gado Luxembourg's income  
12 included in the consolidated financial  
13 statements?

14 A. Yes.

15 Q. Do you know the royalty rate  
16 that is paid by Dolce & Gabbana S.R.L. to Gado  
17 S.R.L.?

18 A. Yes.

19 Q. Can you tell me what it is?

20 A. Ten percent.

21 Q. It's 10 percent of what?

22 A. Of the total -- there is a base  
23 of sales from which we make the calculation.

24 Q. Are those sales -- I'll just  
25 ask you what is the base of sales upon which you

1 Paolo Vannucchi

2 make the calculation?

3 A. The base of sales is -- there  
4 is a price list, there is a quantity. It's the  
5 application of -- there is an agreement with  
6 some condition on which the sale -- this is the  
7 base, this is the quantity. The quantity is net  
8 the discount, returns, whatever. Based on the  
9 total amount, this is times a certain price  
10 list, equal total sales times 10 percent. This  
11 is the royalties.

12 Q. Is there an agreement between  
13 Dolce & Gabbana S.R.L. and Gado S.R.L.?

14 A. Yes.

15 Q. Have you seen that agreement?

16 A. No.

17 Q. Do you know the terms of the  
18 agreement?

19 A. I know the terms, but I've  
20 never seen the agreement.

21 Q. Do you know the financial  
22 terms?

23 A. Yes.

24 Q. Do you know of any other terms  
25 in that agreement?

1 Paolo Vannucchi

2 A. No.

3 Q. I would like you to look at  
4 Exhibit E, the last one that was marked. I  
5 don't know if your counsel asked this question.  
6 If he did, I apologize for repeating this. The  
7 figures appearing on this page, are they Dollars  
8 or Euros?

9 A. Euro.

10 Q. If I could ask you to look at  
11 page DG593 of Exhibit A. Just to lay a  
12 foundation so Mr. Lerner doesn't yell at me,  
13 Exhibit E reflects the communications  
14 investments by Dolce & Gabbana for both the D&G  
15 line and the Premier line in the United States,  
16 correct, Exhibit E? (Indicating.)

17 A. Yes; that's correct.

18 Q. In Exhibit A in the paragraph  
19 in the second column, there is a statement that  
20 says, "In communication investments for the  
21 financial year 2001/2002, amounted to  
22 54.6 million Euros." Do you see that?

23 A. Yes.

24 Q. I believe your testimony  
25 earlier was you provided an estimate of what

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2 percentage of the communication investment was  
3 directed to the United States. Do you recall  
4 that?

5 A. Yes, I remember.

6 Q. I believe your estimate in  
7 answer to Mr. Lerner's question was that for the  
8 last five years, there is about 24 to  
9 25 percent?

10 A. Yes.

11 Q. Before that it was between 20  
12 and 25 percent?

13 A. Correct.

14 Q. I would like to direct your  
15 attention to the column on Exhibit E under 2002.  
16 Do you see that? If we added those two numbers  
17 together, that would tell us the overall  
18 communications investment spend in the United  
19 States for fiscal year-ended March 31, 2002,  
20 right?

21 A. Correct.

22 Q. You can check my math, but my  
23 math says it's 8,387,252 Euros.

24 A. Yes.

25 Q. And to figure out the



1 Paolo Vannucchi

2 percentage of the overall spend, we would take  
3 that number and divide it by 54.6 million Euro,  
4 correct?

5 A. Uh-huh.

6 Q. I will confess I used Excel on  
7 my computer, but I came up with a percentage of  
8 about 15 percent.

9 A. Yes, correct.

10 Q. Does that seem correct to you?

11 A. That's correct.

12 Q. So perhaps the 24 to 25 percent  
13 figure was high?

14 A. In that specific year, but I  
15 have to check, when I say 25 percent, it's  
16 normally the 25 percent I would say on the  
17 normal media channel. I have to check if in  
18 this specific year we make some exceptional  
19 events. So maybe we spend more, so there is an  
20 exception. Maybe the actual was not -- when I  
21 say 7 percent and when the actual is 8 percent,  
22 1 percent on 1.2 billion equal 12 million Euro  
23 of difference. So we are talking 1 percent.

24 Q. Right.

25 A. So as an average base, I could

1 Paolo Vannucchi  
2 say 25 percent. Then we should make a very  
3 precise analysis, I could tell. I can explain  
4 exactly why, in this specific year, it seems 15  
5 and I say 25. As a general consideration, I  
6 consider, because if I think about the media  
7 plan, excluding Internet, special events,  
8 whatever, I'm pretty sure that it's in between  
9 25 and 30. We spent a lot of money because we  
10 wanted to increase and to boost our sales and to  
11 boost our image in the United States. If you  
12 compare the big numbers with the big numbers, we  
13 have to make a very dictated analysis. In the  
14 world we make many different events, in Japan,  
15 in China, in Hong Kong, in Italy. As a general  
16 rule, I can say 25 percent. If you go on the  
17 math, I have to work with you on the details.  
18 Sometimes we have so many events, cost all  
19 around the world in the stores, in Milano, in  
20 New York, everywhere, that, as a general base,  
21 we can say this is the average. If you take a  
22 specific case, I need details to explain to you  
23 exactly what happened.

24 Q. If we just wanted to find out  
25 how much was spent in the United States, would

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2 it be easier simply to look at Exhibit E than  
3 to --

4 A. Yes.

5 Q. -- than to try to figure out a  
6 percentage and apply it to the overall number?

7 A. Yes.

8 Q. Looking at Exhibit E, can you  
9 tell me what percentage of the communication  
10 investment spend in 2002 was spent promoting  
11 eyewear?

12 A. I don't know.

13 Q. Can you tell me -- actually,  
14 let me lay a foundation. Can you tell me how  
15 much of the communication spend in any of these  
16 years was devoted to eyewear reflected on  
17 Exhibit E?

18 A. How much was the eyewear part  
19 of this?

20 Q. Yes.

21 A. I don't know.

22 Q. Can you tell me how much of the  
23 communication investment spend reflected on  
24 Exhibit E was devoted to promoting the Dolce &  
25 Gabbana trademark?

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2 A. Dolce is -- the brand is here,  
3 D&G and Dolce. In each single fiscal year you  
4 have the breakdown by brand. If you go to the  
5 line Dolce & Gabbana, you see exactly the amount  
6 spent in USA each single fiscal year.

7 Q. If we look -- the Dolce &  
8 Gabbana line --

9 A. 2009 is 4.9 million. Behind  
10 this number there is all the product lines. I  
11 could tell you exactly, I don't have it here,  
12 but -- I don't remember exactly what happened  
13 year by year, line by line, because I'm not a  
14 computer.

15 Q. If you did, I'd be a little  
16 worried. So for the entire period from 1998 --  
17 fiscal year-ended March 31, 1998 through fiscal  
18 year-ended March 31, 2009, there was a  
19 communication investment spend of 75.5 million  
20 Euro for the Dolce & Gabbana line, correct?

21 A. Yes.

22 Q. Likewise, for the same period  
23 of time, there was a --

24 A. 45.639.177.

25 Q. Million Euro spend for the D&G

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2 line?

3 A. Yes.

4 Q. Products in the D&G line, do  
5 you know whether, when they're sold, they  
6 include the Dolce & Gabbana mark, as well, on  
7 the products?

8 A. What do you mean?

9 Q. If a pair of shoes is sold  
10 under the D&G line, do you know whether the  
11 Dolce & Gabbana mark appears on the shoe  
12 somewhere?

13 MR. LERNER: Objection. You  
14 can answer if you understand.

15 A. It doesn't make sense. Repeat  
16 it again because I want to give you the answer.

17 Q. Looking at the boots, just for  
18 sake of having it in front of you, that appear  
19 on DG00593, Exhibit A, if those were sold -- if  
20 those were D&G boots -- and I personally can't  
21 tell, but if they were in the D&G line, would  
22 the mark Dolce & Gabbana appear somewhere on the  
23 boot?

24 MR. LERNER: Objection. You  
25 can answer.

1 Paolo Vannucchi

2 A. Yes.

3 Q. I believe you said you compare  
4 advertising expenditures between Dolce & Gabbana  
5 and its competitors?

6 A. Uh-huh.

7 Q. Yes?

8 A. Yes.

9 Q. Where do you get that  
10 information for your competitors, not for Dolce  
11 & Gabbana?

12 A. As I explained before, the  
13 information was got from the advertising and  
14 promotion department.

15 Q. From Dolce & Gabbana's  
16 advertising and promotion department?

17 A. Yes, in Italy.

18 Q. Where do they obtain that  
19 information about --

20 A. We pay for this service.

21 Q. So the consultant tracks  
22 magazines, television advertisements?

23 A. Exactly. They say which is the  
24 magazine you want to check? You say I want to  
25 check this, this and this. On this, twenty

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2 newspaper, magazine, whatever you want to check,  
3 they prepare a ranking on how much has been  
4 spent according to a standard price list. They  
5 say if you advertise in the first page, you have  
6 to spend 10,000 Euro. In the first page there  
7 is Gucci, second page is Dolce & Gabbana. They  
8 make the calculation and they produce a sort of  
9 analysis saying this is the top ranking with  
10 theoretical standard value. So you immediately  
11 understand which is your positioning versus the  
12 competitor in the perimeter that you asked for.  
13 If you want to check Vogue, Vanity Fair,  
14 New York Times or whatever, you put what you  
15 need to check. You give the parameters. You  
16 pay for the service and they give you back the  
17 official analysis. I don't use --

18 Q. You're not involved in that,  
19 are you?

20 A. I'm not involved. To me it's  
21 additional information, just to make sure when I  
22 make the big budget for the advertising, we are,  
23 generally speaking, online with the rest of the  
24 company.

25 Q. Why do you do that?

1 Paolo Vannucchi

2 A. For my personal reason, just to  
3 understand if Dolce & Gabbana is spending as  
4 much as the competitors or less or more. We  
5 don't change in any case the decision, because  
6 in any case we make the decision what we decide  
7 to spend, seven, six or ten. It's our decision,  
8 but we just want also to keep track on what the  
9 competitors is doing.

10 Q. So if you found out that Gucci  
11 had increased its percentage of revenue devoted  
12 to advertising to 40 percent, you wouldn't  
13 change the budget for Dolce & Gabbana?

14 A. We don't change.

15 Q. The information is merely to  
16 know what your competitors are doing, but it  
17 doesn't affect what Dolce & Gabbana does?

18 A. Correct.

19 Q. Look at Exhibit A which is in  
20 front of you. I was a little confused, I will  
21 confess, by the relationship between the  
22 wholesale revenue figures and the sales figures.  
23 Let me see if I can find the two pages. Exhibit  
24 A, pages 605 and 608. Maybe testimony would be  
25 easiest for me to understand. If we look at the



1 Paolo Vannucchi

2 608 first, because the numbers are bigger, if I  
3 look at fiscal year-ended March 31, 2002, the  
4 last column, what does that wholesale revenue  
5 figure represent?

6 A. Which year?

7 Q. The last year?

8 A. 552.6, what it represents?

9 Q. Correct.

10 A. I will explain again. Page 46,  
11 DG00606, wholesale revenues total 552.6 million  
12 Euro. Wholesale revenues consist of Dolce &  
13 Gabbana and D&G Dolce & Gabbana label product  
14 sales by group and third-parties producer.

15 I'll try to explain. Keep  
16 separate groups, third-parties. When we make  
17 the production in Italy, we are talking  
18 products, clothing and accessories. We make the  
19 production and sell the production. We can sell  
20 the production to third-parties and to our  
21 stores. You have to add up our stores and our  
22 production, our sales to third-party. You have  
23 to add up the same information for the  
24 licensing, Luxottica, Binda, when they sell  
25 their merchandise to third-parties or our

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2 stores. The total amount of sales is the  
3 wholesale sales, which is the difference between  
4 the wholesale sales and the -- if you go to the  
5 consolidated income statement to the total  
6 revenue, if you take the breakdown -- in our  
7 consolidated, when we say industrial sales, that  
8 to me means wholesale sales, it's only sales we  
9 make to third-parties.

10 Q. Let me see if can I understand  
11 and break that down. Dolce & Gabbana Industria  
12 produces goods?

13 A. Yes.

14 Q. And sells them both to the  
15 group and also to third-parties?

16 A. Correct.

17 Q. Those sales are reflected in?

18 A. Page --

19 Q. Page 45; is that right?

20 A. No. Those sales are reflected  
21 in page -- in the line Leather Goods and  
22 Footwear, Fabric, Accessories and Clothing.

23 Q. Leather goods, fabric,  
24 accessories and clothing are all manufactured  
25 within the group?

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2 A. I will give you another  
3 example. When we say "wholesale sales," we mean  
4 all the sales that we make to the retail  
5 channel. So if you sell -- it means all the  
6 merchandise that go from the mill, from the  
7 factory, to the store. It could be Neiman  
8 Marcus or Dolce & Gabbana or D&G's own stores.  
9 If you add up these sales, our sales with the  
10 sales of our licensee, the total amount is  
11 500,000,052.

12 Q. Okay.

13 A. But when I have to then go to  
14 the consolidated, the part I have to consider is  
15 only third-parties. So my consolidated is split  
16 by industrial sales, sales that we make from  
17 Italy to third-parties, Neiman Marcus, sales  
18 that we make through our own stores that is  
19 retail sale. So Dolce & Gabbana Industria send  
20 the merchandise to Dolce & Gabbana USA, Inc.  
21 Then Dolce & Gabbana USA, Inc. sell through the  
22 stores.

23 In here I have the retail sales  
24 generated -- I'm trying to explain which is the  
25 difference between the wholesale revenues, on

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2 which the total is 552 million, versus what we  
3 have in our consolidated income statement on  
4 which the total revenue is 317 million. What is  
5 the difference? The difference is that in our  
6 consolidated income statement, we have sales to  
7 third-parties. The sale to third-party is  
8 breakdown by industrial sales, retail sales and  
9 licensing revenue.

10 Industrial sales means sales  
11 from Dolce & Gabbana Industria, that is the  
12 production company, to third-parties, Neiman  
13 Marcus, an Italian customer, whatever it is.  
14 Third-parties we don't care about in the  
15 company, legal entity. Then we have to add up  
16 retail sales that is sales generated inside our  
17 own stores, Dolce & Gabbana or D&G.

18 Then I was trying to give you  
19 the example when the production is in Italy. If  
20 you are a store, you receive merchandise. You  
21 purchase merchandise. You sell the merchandise  
22 through your store. The retail sales is the  
23 sales to the finer consumers through our own  
24 stores.

25 Q. Okay. I think I understand.

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2 Let me try to break it down into maybe an  
3 individual product and you can tell me where it  
4 would fall. A dress is manufactured by Dolce &  
5 Gabbana Industria?

6 A. In Italy.

7 Q. In Italy. It is then  
8 transferred to Neiman Marcus in the United  
9 States.

10 A. Okay.

11 Q. Money goes from Neiman Marcus  
12 back to Dolce & Gabbana Industria?

13 A. Correct.

14 Q. That is a wholesale sale?

15 A. Correct.

16 Q. That appears under Industrial  
17 Sales?

18 A. And in this case, clothing  
19 line, wholesales revenue broken down by category  
20 of clothing, you should have here and there.  
21 (Indicating.)

22 Q. A dress is manufactured by  
23 Dolce & Gabbana Industria --

24 A. And --

25 Q. -- they send it to Dolce &

1 Paolo Vannucchi

2 Gabbana Madison Avenue?

3 A. Yes.

4 Q. Money is transferred from Dolce  
5 & Gabbana Madison Avenue to Dolce & Gabbana  
6 Industria?

7 A. Correct.

8 Q. And it is booked as --

9 A. We hope Dolce & Gabbana Madison  
10 will sell the products that it receives from  
11 Italy.

12 Q. Let's assume it does not sell  
13 the product. The money that is transferred back  
14 to Dolce & Gabbana Industria, is that reflected  
15 in industrial sales?

16 A. No.

17 Q. Is that reflected in retail  
18 sales?

19 A. If Madison sell the products,  
20 it's reflected in retail sales. If it's not --

21 Q. It's inventory?

22 A. Yes, but we consider in our  
23 clothing, so the breakdown is here.

24 Q. If it is manufactured but not  
25 sold, it still is in the line that says

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2 clothing?

3 A. Correct.

4 Q. If one were to look at the  
5 inventory at the end of the year and add that to  
6 retail sales and wholesale sales, it probably  
7 would end up pretty close to the number that's  
8 reflected on page 608?

9 A. Correct.

10 Q. Thank you, because I couldn't  
11 reconcile the difference between those numbers.

12 A. I tell you why, because this is  
13 what we call -- not only us, but I will say all  
14 the industrial, all our industry, everybody  
15 call -- when you say how much is your wholesale  
16 sales, the wholesale sales, everybody, they like  
17 to increase the size of the company. I don't  
18 like, personally, but this is the wholesale  
19 sales. Theoretically is all the merchandise on  
20 which you make the production and you ship to  
21 third-party or your -- so, theoretically, if you  
22 then should sell 100 percent of the merchandise,  
23 the consolidated should be exactly double.

24 Q. Exactly double?

25 A. Yes. If this is what you

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2 sell -- I would say through your retail channel.  
3 In this case if you assume that all your  
4 wholesale sales will go to the -- your own  
5 retail business -- so suppose I give you an  
6 example.

7 One hundred Euros is your  
8 wholesale sales. You sell to your retail  
9 channel. If they will not sell in your  
10 consolidated, you will see zero because it's an  
11 intercompany position. So it's 100 sales and  
12 100 purchase, so is zero. So in your financial  
13 you'll see zero, but in your wholesale you  
14 should see 100. If you consider if you sell to  
15 third-parties, you should see 100 in industrial  
16 sales and 100 in wholesale sales.

17 Q. Part of that is, as we  
18 discussed yesterday with Ms. Forte, I think you  
19 were still here, the risk of sale is on your  
20 third-party customer, not on Dolce & Gabbana?

21 A. Right.

22 MR. LERNER: Objection. You  
23 can answer.

24 A. Yes; that is correct.

25 Q. You don't have to book a



1 Paolo Vannucchi

2 reserve for returned inventory from  
3 third-parties?

4 A. No. It's their risk. To close  
5 the explanation of total revenues, then you have  
6 the licensing revenue. The licensing revenue is  
7 just the royalties, commission that we receive  
8 from Marcolin that year, Luxottica, Proctor &  
9 Gamble and Binda and whatever. Their wholesale  
10 sales are here, 188.

11 Q. The licensing revenue -- the  
12 wholesale sales reflected on page 608 for  
13 fragrances, eyewear and watches are numbers that  
14 Dolce & Gabbana obtains from its licensees,  
15 correct?

16 A. This is correct, because this  
17 is the base of the calculation of the royalties.

18 Q. So it's not based on the retail  
19 sales by the licensees?

20 A. No.

21 Q. It's based on the wholesale  
22 sales?

23 A. Yes. We collect commission  
24 based on the wholesale business, not the retail  
25 business.

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2 Q. Once again, Dolce & Gabbana  
3 doesn't bear the risk of it being sold at  
4 retail?

5 A. If Luxottica sell to Neiman  
6 Marcus but Neiman Marcus doesn't sell anything,  
7 we get the royalties from Luxottica, from the  
8 sales generated from Luxottica to Neiman Marcus,  
9 also if the product is still lying in inventory.

10 Q. So if --

11 A. To me it's a wholesale sales,  
12 so I have to indicate here. In any case, I get  
13 royalties from them.

14 Q. Okay. If a watch is  
15 manufactured by Binda and sold by Binda to a  
16 retail outlet, Neiman Marcus, Saks Fifth Avenue,  
17 Binda gets 100 Euros, for example?

18 A. Yes.

19 Q. Then Binda pays Dolce & Gabbana  
20 10 percent of that 100 Euros?

21 A. We get 10. Ten is in licensing  
22 revenue. Then I have 100 in fragrances,  
23 eyewear, watches that is part of 188 million.

24 Q. If the watch is ever sold to  
25 the public --

1 Paolo Vannucchi

2 A. I don't care.

3 Q. -- that is not reflected  
4 anywhere in these financials?

5 A. No.

6 Q. Is that correct?

7 A. Correct.

8 Q. When you started with Dolce &  
9 Gabbana in 1999, was the risk of sale also --  
10 was the risk of sale on Dolce & Gabbana's  
11 licensees at that time?

12 A. No.

13 Q. So was it different in 1999  
14 than it is today?

15 A. No, I'm sorry, I don't  
16 understand.

17 Q. To make it easy, in 1999, if  
18 Marcolin manufactured a pair of sunglasses and  
19 sold it to a retail outlet, Marcolin would pay a  
20 royalty to Dolce & Gabbana --

21 A. Uh-huh.

22 Q. -- regardless of --

23 A. Yes.

24 Q. -- regardless of whether the  
25 sunglasses ever sold to an end customer,

1 Paolo Vannucchi

2 correct?

3 A. Yes.

4 Q. That's the same situation that  
5 you have today?

6 A. Same situation.

7 Q. Has it been, during the time  
8 that you have been with Dolce & Gabbana, has it  
9 been -- have you had a different relationship  
10 with any other licensee?

11 A. Absolutely not. Same situation  
12 since 1999 when I was here.

13 Q. Do you know whether it was the  
14 same situation in 1998?

15 A. I don't know.

16 Q. If we wanted to know what the  
17 retail sales were of eyewear in the United  
18 States for 2009 -- 2002, is that reflected  
19 anywhere in this report?

20 A. No.

21 Q. I assume the other report we  
22 looked at, which was fiscal year 2003, it's not  
23 reflected there either?

24 A. No.

25 Q. If we want to know the overall

1 Paolo Vannucchi  
2 retail sales of Dolce & Gabbana products in the  
3 United States for 2002, is that reflected in  
4 this report?

5 A. No.

6 Q. You mentioned -- we're  
7 switching topics completely now. You can put  
8 that away. You mentioned Dolce & Gabbana  
9 published some books?

10 A. Yes.

11 Q. You said there are about nine  
12 of those books?

13 A. Yes.

14 Q. Do you know what the  
15 circulation was of those books, how many copies  
16 were sold?

17 A. At the moment I could say -- I  
18 know exactly how much we produced for each  
19 single. We produced around 20,000 pieces for  
20 each edition I'd say, for each single of the  
21 nine book.

22 Q. So a total of about 180,000  
23 copies for the nine books?

24 A. Yes. This was the first  
25 production. Then it depends, because sometimes

1 Paolo Vannucchi

2 we sold, sometimes we use during the fashion  
3 show if we're making some promotional activity.  
4 I'm not aware at the moment if they make a  
5 reproduction of certain books, another 3,000,  
6 5,000, 10,000, I don't know.

7 Q. Which division of Dolce &  
8 Gabbana deals with that sort of things?

9 A. Books is the PR division  
10 department.

11 Q. I believe you mentioned the  
12 books are distributed to VIP's?

13 A. Yes.

14 Q. Distributed in fashion shows?

15 A. Yes.

16 Q. Some of your store events?

17 A. Yes.

18 Q. Do you know what percentage of  
19 the books were distributed in the United States?

20 A. I don't know.

21 Q. Do you know whether any of the  
22 books were actually sold to the public?

23 A. In our stores?

24 Q. Yes.

25 A. We sell in the stores, Dolce &

1 Paolo Vannucchi

2 Gabbana US, all the other Dolce & Gabbana store  
3 around the world and then there is also some  
4 book stores. I don't know exactly where, in  
5 which, because the editors, person who printed  
6 the books, they always try to sell through his  
7 channel. Most of the book you can also buy in a  
8 book store. I don't know where, but ...

9 Q. I would like you to look at  
10 Exhibit B. Tell me if you ever need to take a  
11 break. I know in the afternoon it starts to get  
12 warm and we get tired.

13 A. To me it's not a problem. You  
14 have the plane.

15 Q. Exhibit B, my understanding is  
16 it reflects sales of eyewear in the United  
17 States, correct?

18 A. By brand and by quarter.

19 Q. By brand and by calendar  
20 quarter?

21 A. Yes.

22 Q. The figures that appear here,  
23 are these retail sales, net sales, wholesale  
24 sales?

25 A. Wholesale sales.

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1 Paolo Vannucchi

2 Q. So they are sales by, for the  
3 most part in this case, Marcolin to retail  
4 outlets?

5 MR. LERNER: Objection.

6 A. Correct.

7 MR. WILTON: I'm not sure  
8 what your objections mean.

9 MR. LERNER: Form, and I  
10 think you're misstating -- I don't  
11 know what you mean by "most part" and  
12 in terms of how much is Marcolin  
13 versus Luxottica, that  
14 characterization, whether "most  
15 part" -- what does that mean? It may  
16 mean something different to you than  
17 it does to the witness.

18 Q. Marcolin was Dolce & Gabbana's  
19 licensee for eyewear through 2004; is that  
20 correct?

21 A. I think so, I'm not sure. I  
22 don't remember exactly the year.

23 Q. 2004 or 2005?

24 A. Yes.

25 Q. Since that time, Luxottica has



1 Paolo Vannucchi

2 been the eyewear licensee; is that correct?

3 A. Yes, correct.

4 Q. If we look at the figures that  
5 appear on Exhibit B for the year 1997, we see in  
6 the fourth quarter of 1997, 153,796. That's in  
7 Euros; correct?

8 A. Yes.

9 Q. That reflects sales by Marcolin  
10 to its customers, retail stores and outlets in  
11 the United States; correct?

12 A. Correct.

13 Q. If we went back to the report,  
14 the annual report --

15 A. Sorry. I presume this is the  
16 base on which we make the calculation for the  
17 royalties. It means this is the base, according  
18 to the agreement at that time, Dolce & Gabbana  
19 with Marcolin, on which we said this is the  
20 correct base for the business in US. I don't  
21 know what happened in 1997, if Marcolin sold  
22 from Marcolin Italy to Marcolin USA, at which  
23 transfer price and how much of this has been  
24 sold, I don't know. I can tell you this is the  
25 business royalty base. So maybe royalties sold

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2 to Marcolin USA at a different price because  
3 they had distribution company at that time. I  
4 don't know if then they had another step before  
5 to sell to someone else. I don't know. I can  
6 confirm this is the royalties base.

7 Q. Okay.

8 A. Maybe US, if they decided to  
9 sell to Marcolin USA at one dollar, I don't  
10 know. This is according to what they pay to us  
11 according to a price, to an agreement. I can  
12 confirm it is related to pieces sold in United  
13 States according to a certain price list. If  
14 this is the real value, 100 percent real value  
15 of the business in US, I don't know.

16 Q. Okay.

17 A. I'm sure this is a correct  
18 base.

19 Q. Let me see if I understand.  
20 The number that is reflected here in the fourth  
21 quarter of 1997, 153,796 Euro was the royalty  
22 base number reported by Marcolin in Italy to  
23 Dolce & Gabbana in Italy?

24 A. Yes.

25 Q. Then Marcolin Italy would

1 Paolo Vannucchi  
2 transfer product -- strike that. Marcolin Italy  
3 manufactured products; correct?

4 A. Correct.

5 Q. It then sent the products to  
6 its related company or subsidiary in the United  
7 States, correct, as far as you know?

8 A. I think so. I don't know what  
9 Marcolin was doing in 1997. I can tell you  
10 exactly -- if you are saying this is the  
11 business of Marcolin in US, I can say yes, but  
12 in base royalty -- this is a base royalty in US.  
13 I don't know what Marcolin did in US.

14 Q. So you don't know whether or  
15 not the sunglasses or eyewear -- strike that.  
16 You don't know whether the eyewear reflected in  
17 the royalty base reported to Dolce & Gabbana was  
18 ever sold to customers in the United States;  
19 correct?

20 A. Correct.

21 Q. Is the same true for all of the  
22 figures that appear on Exhibit B?

23 A. Yes. I don't know when  
24 Luxottica exactly started, but it's the same  
25 concept.

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1 Paolo Vannucchi

2 Q. Even when Luxottica started,  
3 Exhibit B reflects the royalty base reported by  
4 Luxottica to Dolce & Gabbana Italy; correct?

5 A. Yes.

6 Q. It does not reflect retail  
7 sales in the United States; correct?

8 A. Correct.

9 Q. From this Exhibit B, you can't  
10 tell us what the retail sales of eyewear were in  
11 the United States for any of the years reflected  
12 on Exhibit B; is that correct?

13 A. Correct.

14 Q. With regard to the portion of  
15 this chart that says Dolce & Gabbana at the top,  
16 that refers to the Premier line as Mr. Lerner  
17 has described it, right?

18 A. Yes.

19 Q. Can you tell us what percentage  
20 of the sunglasses and other eyewear reported to  
21 Dolce & Gabbana had the mark DG on them?

22 A. Can you repeat?

23 Q. Can you tell from looking at  
24 this chart or any other information that you  
25 have what percentage of the eyewear reported --

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1 Paolo Vannucchi

2 strike this. In 1997 fourth quarter, Marcolin  
3 reported a certain royalty base to Dolce &  
4 Gabbana, correct?

5 A. Yes.

6 Q. That royalty base was based on  
7 some unit number of eyewear that were  
8 manufactured by Marcolin; correct?

9 A. Correct.

10 Q. Do you know, just looking at  
11 the column that says -- the portion that says  
12 Dolce & Gabbana, what percentage of the eyewear  
13 manufacture reported to Dolce & Gabbana included  
14 the insignia DG on them?

15 A. I don't know.

16 Q. Can you determine that  
17 percentage for any of the reported royalty base  
18 numbers that appear on Exhibit B?

19 A. I don't know.

20 Q. Let's look at Exhibit C, which  
21 I see you have in front of you.

22 A. Okay.

23 Q. It's my understanding from your  
24 testimony that the first section that talks  
25 about ready-to-wear is actually in thousands of

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2 Euros; correct?

3 A. Yes.

4 Q. But the bottom part is just in  
5 straight numbers?

6 A. That's correct, yes.

7 Q. With regard to the numbers  
8 under ready-to-wear -- forgive me, my notes  
9 don't reflect this, what do the numbers reflect?

10 A. This is the wholesale business  
11 for Dolce & Gabbana and D&G ready-to-wear by  
12 fiscal year.

13 Q. So in fiscal year 1997 -- let  
14 me just ask you this. What does AI96-PE97 mean?

15 A. Where?

16 Q. Right underneath where it says  
17 fiscal year 1997, I'm sure it's Italian.

18 A. This is the season. AI is --  
19 autunno/inverno is autumn/winter. PE is  
20 primavera/estate, spring/summer.

21 Q. If you look back at the  
22 ready-to-wear column for fiscal year 1997, which  
23 is autumn/winter '96 to spring/summer '97, it  
24 reflects 9 million 146,000 Euros.

25 A. Correct.

1 Paolo Vannucchi

2 Q. Those are wholesale sales of  
3 clothing, ready-to-wear, under the Dolce &  
4 Gabbana line?

5 A. Yes.

6 Q. If we had these numbers  
7 reflected in the top portion of Exhibit B, for  
8 ready-to-wear --

9 A. Yes.

10 Q. -- for the entire world, they  
11 would tie back to the wholesale sales figures we  
12 looked at before?

13 A. Yes, correct.

14 Q. If we look at the bottom  
15 portion of this Exhibit C, this chart also  
16 reflects wholesale sales; correct?

17 A. I would say no because the  
18 first part is perfectly matched with the fiscal  
19 year. The second one is calendar year. We  
20 should move the quarter.

21 Q. There is another problem here.  
22 That is, this reflects the royalty base reported  
23 to Dolce & Gabbana Italy, not actual sales by  
24 the licensees?

25 A. Correct.

1 Paolo Vannucchi

2 Q. I'm looking at the 1997 figure.  
3 Under Eyewear it says 153,796 Euro, which is the  
4 same number we saw in Exhibit B.

5 A. Yes. It's the royalty base,  
6 but by calendar year. So if you want to link  
7 with this, we --

8 Q. Shift it?

9 A. Exactly.

10 Q. If we spent the time, we can  
11 tie the Eyewear column to Exhibit B?

12 A. Same number.

13 Q. Except Exhibit B ends in 2006  
14 and Exhibit C ends in 2008.

15 (An off the record  
16 discussion took place.)

17 (A recess was taken.)

18 BY MR. WILTON:

19 Q. The first question I have is  
20 really a clarification question. The financial  
21 statements that we looked at both for fiscal  
22 year-ended 2002 and fiscal year 2003 are  
23 audited; correct?

24 A. Yes, correct.

25 Q. You said they are available to

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1 Paolo Vannucchi

2 the public?

3 A. Yes.

4 Q. Dolce & Gabbana, is that a  
5 public company?

6 A. No. In Italy all the company,  
7 they don't care if it's public or private, they  
8 are obliged to give information to the public.

9 Q. Do all financials have to be  
10 audited?

11 A. Our financial, yes, starting  
12 from 1999, 1999.

13 Q. During your direct examination  
14 with Mr. Lerner, you talked about the number of  
15 Dolce & Gabbana owned stores. I believe you  
16 said there were five in the United States or  
17 seven in the United States?

18 MR. LERNER: Objection.

19 A. Five Dolce & Gabbana and seven  
20 D&G.

21 Q. Twelve total?

22 A. And three outlet stores.

23 Q. In 1999 when you started, there  
24 were no outlets, correct?

25 A. Yes.

1 Paolo Vannucchi

2 Q. Were there D&G stores?

3 A. One Dolce and one D&G.

4 Q. A total of two stores?

5 A. Yes. When I started, it was  
6 the 1st of March, but the end of March we opened  
7 Bal Harbour.

8 Q. Then you had two Dolce and one  
9 D&G?

10 A. Yes.

11 Q. You said when you started --  
12 when you started in 1999, Itierre had more than  
13 100 accounts in the United States, correct?

14 A. Correct.

15 Q. You said that, I guess, a  
16 decision was made to get rid of some of those  
17 accounts; is that right?

18 A. Yes.

19 Q. In the words I believe you  
20 used, they were "not at our Dolce & Gabbana  
21 level" or something to that effect. Let me  
22 strike that. Why did you get rid of the  
23 accounts?

24 A. Why?

25 Q. Why did you take the number of

1 Paolo Vannucchi

2 accounts that Itierre had in the United States  
3 and reduce them?

4 A. We reduce because we considered  
5 most of the accounts not at the level that we  
6 would like to have for a brand like D&G.

7 Q. When you say not at a level,  
8 what do you mean by that?

9 A. For instance, before an  
10 example, when we realize -- when we make the  
11 analysis on our map that some location was  
12 totally out of our commercial strategy, we  
13 decided to say this is not in line with our  
14 commercial strategy. That's why we decided to  
15 close certain accounts.

16 Q. So there were certain locations  
17 in the United States that were not in Dolce &  
18 Gabbana's commercial strategy to sell goods at?

19 A. Yes.

20 Q. Were those locations  
21 geographic, like a state, or were they simply  
22 this storefront we don't like, but this one we  
23 do like?

24 A. I would say state, city and  
25 street. We have different level. Sometimes we

1 Paolo Vannucchi

2 say I don't want to go to Germany, we don't  
3 sell, we close the business for Germany.  
4 Sometimes we said Germany is fine, we have too  
5 many city, we close some city. Sometimes we say  
6 okay, we are in Berlin, but too many stores. We  
7 close some stores, some accounts. It depends on  
8 which level we make the strategy.

9 Q. Was the concern that the Dolce  
10 & Gabbana brand wouldn't be as exclusive as you  
11 wanted it to be?

12 A. The D&G brand.

13 Q. The D&G brand?

14 A. Yes, because sometimes what we  
15 realize is that if you don't handle directly the  
16 business, sometimes the licensee sell to  
17 everybody. So we found some situation on which  
18 maybe it was a good customer, but use the D&G  
19 brand to sell and to attract consumer but to  
20 sell other business. Maybe the order is very  
21 small, they put D&G outside the store, but their  
22 business is 95 percent with other brands. When  
23 we realize situation like this, we said dear  
24 customers, you want to invest with D&G or are  
25 you using D&G to make your own business and you

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1 Paolo Vannucchi

2 don't trust D&G, the business? In many cases we  
3 decided to close the business with them  
4 independently if it was state, city or street.

5 Q. It was based primarily on what  
6 the actual business was doing?

7 A. I'll say yes.

8 Q. If you had a store in Iowa and  
9 it was selling exclusively D&G line merchandise,  
10 would that store -- just based on a few facts,  
11 would that store have been closed or no?

12 MR. LERNER: Objection.

13 A. The analogy was a little bit  
14 more complex. In any case, when we -- when they  
15 made, it was the sales department that make the  
16 analysis in order to see what should be the  
17 correct positioning of the brand D&G when we  
18 decided to bring it back. So they decided with  
19 very select parameters which was the customer,  
20 level A, level B or level C or to cancel. We  
21 made a -- they made a very deep analysis and  
22 finally they found -- because when they started  
23 the analysis, they didn't know if 120  
24 accounts -- if they were correct or not. After  
25 that, they decided 20 percent of what they

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2 found, they decide to eliminate.

3 Q. So --

4 A. They work very hard for a long  
5 time.

6 Q. And eliminated about 20 percent  
7 of the accounts that Itierre had?

8 A. At that time, yes. Not only in  
9 US, but also in the rest of the world. In fact,  
10 the strategy at that time, just to remind you  
11 what Itierre -- 90 percent of the business with  
12 the brand D&G was T-shirts, jeans and belt.  
13 Now, two years later, the business of jeans,  
14 T-shirts and belts represents for us less than  
15 10 percent. Now we are much closer to the Dolce  
16 & Gabbana business. We change completely the  
17 positioning, the products. We switch totally  
18 the brands and now the brands from low level we  
19 move up much closer to Dolce & Gabbana brands.  
20 That's why at that time we said we cannot stay  
21 in the place because it's too low for our brand,  
22 in future where we would like to go.

23 Q. First of all, when you said two  
24 years, are you talking 2001, 2002?

25 A. We bring back the license

1 Paolo Vannucchi

2 during the spring/summer '07.

3 Q. Oh, okay.

4 A. Because Itierre was the  
5 licensor until -- the last season was  
6 fall/winter '06.

7 Q. So this wasn't in 1999 that you  
8 eliminated stores, it was more recently?

9 A. More recently.

10 Q. When you say certain stores  
11 were too low, are you referring to the  
12 demographic of the customer or the sales or what  
13 do you mean by "low"?

14 A. Low, I would say if they -- the  
15 area is not appropriate. When we think New York  
16 for D&G, I think Fifth Avenue, Broadway. I  
17 don't think Bronx, to give you an idea. If we  
18 found some situation in Bronx, we said they  
19 cannot exist with our brands. I don't want to  
20 say what is low and what is high. To us we stay  
21 where the other competitors are. We don't go in  
22 "poorer" locations; not poor because they don't  
23 have money to spend, but poor because we are the  
24 only brands in that location. It doesn't make  
25 sense.

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2 Q. So Dolce & Gabbana is trying to  
3 position its stores in locations where you would  
4 find a Gucci store, a Prada store, an Armani  
5 store; correct?

6 A. Basically correct, yes, at the  
7 moment for Dolce and D&G.

8 Q. In 1999 was Dolce already in  
9 sort of those positions where it was only  
10 located where Gucci, Armani and Prada were  
11 located?

12 A. I'll say yes.

13 Q. The D&G line was spread across  
14 a little more?

15 A. Yes.

16 Q. Now that's contracted?

17 A. Correct.

18 Q. Is there a certain income level  
19 of customer that Dolce & Gabbana is looking for  
20 for its D&G line, for example?

21 A. Can you explain better?

22 Q. Some companies, their target  
23 audience are families with two children making  
24 more than \$50,000 a year. Is there that sort of  
25 target that Dolce & Gabbana looks for?

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2 A. No. Potentially everybody is a  
3 customer.

4 Q. Last series of questions I  
5 have. You mentioned a Web site called Swide?

6 A. Swide.

7 Q. Dot-com?

8 A. I invite you to visit Swide.

9 Q. I did visit it. The question I  
10 have for you is does that site actively promote  
11 the Dolce & Gabbana brand or does it really  
12 promote celebrity news and --

13 A. I don't know if you went  
14 through and you read some interesting news.  
15 Basically 80 percent of what has been written  
16 everyday is related to Dolce or D&G brands. So  
17 we are promoting the brands through that new  
18 channel.

19 Q. When did this Swide.com Web  
20 site become active?

21 A. We open December last year.

22 Q. December of 2008?

23 A. Yes.

24 Q. How does Dolce & Gabbana  
25 promote the Swide.com Web site?

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1 Paolo Vannucchi

2 A. We have linked -- if you open  
3 Dolce & Gabbana site, you will see Swide.com.  
4 You can click and you directly go to them. For  
5 instance, we use Swide because we put also some  
6 movies, small movies. For instance, during the  
7 fashion show, Swide, we go there. We make some  
8 movie during backstage, fashion show, VIP and we  
9 put all the information and movies in the site.  
10 You can also see something very particular.

11 Q. I did have one other little  
12 series of questions, I apologize. We looked at,  
13 on Exhibit B, for example, the royalty base  
14 figures for the United States for eyewear;  
15 correct?

16 A. Yes.

17 Q. I believe you testified that  
18 the United States actually includes Canada and  
19 South America?

20 MR. LERNER: Objection.

21 Q. Let me rephrase that, that  
22 didn't sound right, it doesn't, some people  
23 might believe that. The license with Marcolin,  
24 when Marcolin reported sales for the United  
25 States, it reported sales in the United States,

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1 Paolo Vannucchi

2 Canada and South America; is that right?

3 A. This is only --

4 Q. Royalty base?

5 A. Royalty base for United States.

6 Q. Just the United States?

7 A. Yes.

8 Q. So there would be a separate  
9 analysis for royalty base for Canada?

10 A. Normally we have analysis by  
11 each single country so we can break down the  
12 world by country. So this is the selection by  
13 USA only.

14 Q. Did you create Exhibit B or did  
15 somebody else?

16 A. This is coming from the  
17 licensing office.

18 Q. Of Dolce & Gabbana?

19 A. Dolce & Gabbana. It has been  
20 checked by accounting and double checked by my  
21 staff again.

22 MR. WILTON: I have nothing  
23 further, Mr. Lerner.

24 (An off the record  
25 discussion took place.)

1 Paolo Vannucchi

2 (A recess was taken.)

3 CONTINUED EXAMINATION

4 BY MR. LERNER:

5 Q. I want to return your attention  
6 again for a few minutes to Exhibit A that you  
7 were talking about with Mr. Wilton. I think in  
8 the question and answer with Mr. Wilton in  
9 talking about Exhibit A, you noted overall  
10 retail sales are not reflected in Exhibit A; is  
11 that right? Maybe we were just talking about  
12 the chart on DG00608. That last page doesn't  
13 reflect retail sales; is that correct?

14 A. Correct.

15 Q. One can find a retail sales  
16 figure in Exhibit A; correct?

17 A. Yes.

18 Q. DG0005 or page 45 on the  
19 document.

20 A. Okay.

21 Q. I think you had some discussion  
22 with Mr. Wilton again about the differences  
23 between the line Industrial Sales and Retail  
24 Sales; correct?

25 A. Yes.

1 Paolo Vannucchi

2 Q. Just to be clear, can you  
3 confirm again, looking at 2002 fiscal year, last  
4 column, what that retail sales number of  
5 74.5 million Euros refers to?

6 A. In the row Retail Sales for the  
7 fiscal year-ending '02 of the total 275 million,  
8 we have all the sales generated through our  
9 Dolce & Gabbana, D&G and outlet stores in the  
10 world.

11 Q. Does that figure reflect actual  
12 retail sales to end customers?

13 A. Yes.

14 Q. For fiscal year-ending  
15 March 31, 2001, the worldwide retail sales  
16 figures from all the Dolce & Gabbana stores  
17 worldwide was 48.6 million; is that correct?

18 A. Correct.

19 Q. For fiscal year-ending 2000, it  
20 was 28.7 million?

21 A. Correct.

22 Q. If we looked at Exhibit B --  
23 sorry -- Exhibit D, I draw your attention to  
24 DG00636 or the internal page 54.

25 A. Yes.

1 Paolo Vannucchi

2 Q. If we wanted to find the  
3 worldwide retail sales through all the Dolce &  
4 Gabbana, D&G and outlet stores, we could then  
5 look at this consolidated income statement; is  
6 that correct?

7 A. Correct.

8 Q. What were the year-end --  
9 fiscal year-end 2003 total retail sales  
10 worldwide?

11 A. It's 148.9 million Euro.

12 Q. How did that compare to 2002?

13 A. 74.5 million.

14 Q. So what kind of growth is that  
15 in retail sales over that year?

16 A. We opened many stores. During  
17 that year, we -- because our strategy was to  
18 open Dolce & Gabbana, D&G stores all around the  
19 world, especially we started in Italy. During  
20 the fiscal year 2002, we opened -- fiscal year  
21 2002, 2003, many new stores.

22 Q. During fiscal year 2003, do you  
23 know when any new stores were opened in the  
24 United States?

25 A. 2003, yes. We had -- let me

1 Paolo Vannucchi  
2 think one second. We opened -- on the top of my  
3 mind, we opened Las Vegas, Dolce & Gabbana, D&G  
4 2003. We opened Beverly Center, South Coast  
5 Plaza. I don't remember the other one. It's  
6 the jetlag effect.

7 Q. This morning I believe you  
8 testified in connection with some of the  
9 worldwide wholesale numbers as to percentage  
10 that was represented by wholesale sales into the  
11 United States for the period 1999 to 2002. Do  
12 you recall?

13 A. Yes.

14 Q. Am I correct that -- on average  
15 during that period from '99 to 2002, you said it  
16 was in the range of 14 to 15 percent?

17 A. Yes.

18 Q. Can you give me a similar  
19 percentage of -- have you ever undertaken an  
20 analysis of the percentage of retail sales that  
21 reflect the worldwide line that we have just  
22 been looking at for the US?

23 A. For which year?

24 Q. For any year have you ever  
25 undertaken that analysis?

1 Paolo Vannucchi

2 A. Let me think, let me think,  
3 because in US in my mind is Dollar. Here is  
4 Euro.

5 Q. Let me make sure I understand  
6 the question, just laying a foundation. Have  
7 you ever undertaken to determine the percentage  
8 of the worldwide retail sales that are  
9 represented by retail sales in the United  
10 States?

11 A. Can you explain?

12 Q. This morning you testified that  
13 as for the wholesale figures worldwide that are  
14 listed in Exhibits A and D, you had an  
15 understanding of the percentage that was  
16 allocated to wholesale sales in the US being  
17 about 14 to 15 percent. Now I'm asking for the  
18 retail sales line, have you undertaken to try  
19 and determine what percentage of those retail  
20 sales are represented by the US stores as  
21 opposed to the worldwides?

22 A. As an average, I would say more  
23 or less the same percentage, around 15 percent.

24 Q. So for the period 1999 to 2002,  
25 you say that the retail sales percentage --

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1 Paolo Vannucchi

2 A. Compared with the total, I  
3 would say 15 percent also.

4 Q. As of fiscal year-end  
5 March 2009, do you know what the overall retail  
6 sales revenues were for all the Dolce & Gabbana,  
7 D&G and outlet stores that were in the United  
8 States?

9 A. Ten percent.

10 Q. Now I'm asking for not a  
11 percentage, but do you know what the actual  
12 dollar retail revenues were?

13 A. We're talking 60 million US  
14 dollar. This morning when I say 400 of this 1.2  
15 billion, I say 400 million is retail,  
16 \$60 million is equivalent of I would say 45 to  
17 50 million Euro, 50 million, 45 to 50 million  
18 Euro compared with 400 million Euro, is the  
19 range in between 10 percent. The reason is that  
20 in US we didn't invest no more new stores. We  
21 opened many new stores in the rest of the world,  
22 especially Far East and Japan. That's why last  
23 year it decreased a little bit compared with the  
24 previous one, 2003, 2002, 2001.

25 Q. This morning I think we also

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2 talked about fiscal year-end 1999. You  
3 testified about the consolidated revenues of  
4 100 million Euro?

5 A. Uh-huh, yes.

6 Q. You broke that down this  
7 morning and you said about 15 million of that  
8 100 million was retail revenue; correct?

9 A. Correct.

10 Q. For that 15 million in fiscal  
11 year 1999, do you know how much of that was  
12 retail sales in the US as opposed to worldwide?

13 A. Let me think one second. I  
14 would say 20 percent.

15 Q. Why do you think it was a  
16 higher percentage back in 1999 than in the later  
17 years?

18 A. When we started the opening of  
19 the new stores, we started in Italy. Then we  
20 moved to United States, then we started with  
21 Europe, then we moved to Japan and Asia. In  
22 1999, of the total 50 million, 10 million was  
23 United States. The rest of the 50 million, most  
24 of the 50 million were in Italy. So 10 million  
25 on 50 million is 20 percent. We started the new

1 Paolo Vannucchi

2 opening in US market in that year.

3 Q. Maybe I was hearing wrong. I  
4 thought you testified this morning that 15 --  
5 15 million was the total retail out of the  
6 100 million?

7 A. Sorry. One second. '99 you  
8 are talking about? Let me think one second.  
9 Can I see one second this one? (Indicating.)

10 MR. WILTON: Objection,  
11 beyond the scope.

12 A. This morning I said 15. It was  
13 not 15, but around 20. Of the 100, I said this  
14 morning 15 -- now I see the 2000, so cannot be  
15 15. In 2000 we made double. It should be 20.  
16 We have to reconsider one second if we can.  
17 100 million -- this morning I said when I joined  
18 the company, I go with my memory, the  
19 consolidated was 100 million. The breakdown of  
20 this 100 million, I said 15 million was retail,  
21 was not correct. The 15 million should be in  
22 between 20 and 21 million, okay?

23 Q. Why do you say that?

24 A. Now I see the number and I  
25 recognize the number. Fiscal year 2000, the

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1 Paolo Vannucchi  
2 consolidated was 120 million total. If you go  
3 through retail sales the following year, 2000,  
4 was 28 million. We didn't double from '99 to  
5 2000. So 15 is wrong. So the correct is --  
6 it's not 15, it's 20, 21 million Euro.

7 Q. I understand.

8 A. Coming back to the 20,  
9 21 million Euro in the retail sales in 1999, the  
10 percentage of retail sales for the US store was,  
11 I would say, 27 percent.

12 Q. Just to be clear, the retail  
13 sales figures we have been speaking of from  
14 Exhibit A and D, the consolidated income  
15 statements, is it correct those figures did not  
16 include any retail sales of eyewear?

17 A. It could include some sales.

18 Q. Can you explain that?

19 A. In the retail sales we also  
20 sold sunglasses in our own stores.

21 Q. Let's say in 2002 Marcolin was  
22 the licensee and it sells to Dolce & Gabbana  
23 USA, then distributes those glasses through its  
24 retail stores. That glass sells to a customer,  
25 that retail income is reported as part of the

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2 retail sales line?

3 A. No. In here you can find  
4 retail sales for the eyeware we bought from  
5 Marcolin for our stores, because we sold  
6 Marcolin sunglasses in our stores.

7 Q. The retail sales that are here  
8 includes --

9 A. Marcolin retail sales of our  
10 stores only.

11 Q. Does it include other licensee  
12 products sold in the retail stores?

13 A. Perfumes and watches. Inside  
14 the stores we also sell products of our  
15 licensor.

16 Q. But you don't know what  
17 percentage of the retail sales attributable  
18 to --

19 A. Very, very small. Talking  
20 really less than 2 percent, very, very small.  
21 At that time maybe less than 1 percent.

22 MR. LERNER: All set.

23 CONTINUED EXAMINATION

24 BY MR. WILTON:

25 Q. Quick question. The

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2 100 million Euro figure for 1999, is that  
3 reflected in these documents? (Indicating.)

4 A. No.

5 MR. WILTON: Nothing further.

6 (Time noted: 5:07 p.m.)

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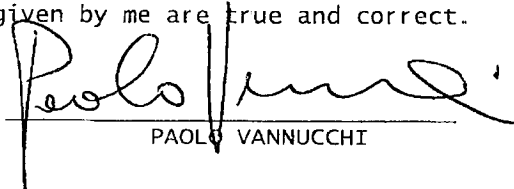
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Paolo Vannucchi

ACKNOWLEDGMENT

I, PAOLO VANNUCCHI, hereby  
certify that I have read the  
transcript of my testimony taken  
under oath in my deposition of  
October 21, 2009, that the  
transcript is a true, complete and  
correct record of my testimony, and  
that the answers on the record as  
given by me are true and correct.

  
PAOLO VANNUCCHI

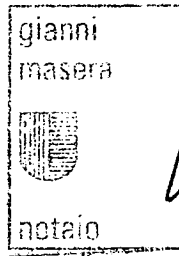
Subscribed and sworn to before me

this \_\_\_\_\_ day of \_\_\_\_\_, 2009.

\_\_\_\_\_, Notary Public

Autentica no. **1102** (millecentodue) -----  
Lugano, 16 (sedici) novembre 2009 (duemilanove)-----  
Il Signor **Paolo VANNUCCHI**, nato il 30 (trenta) novembre 1963  
(milenovecentosessantatre), cittadino italiano, residente a Milano,  
persona a me nota, mi ha personalmente dichiarato di aver apposto di  
proprio pugno la firma a retro che dichiaro autentica. -----  
In fede: -----

Avv. Gianni Masera, notaio in Lugano



*Gianni Masera, notaio in Lugano.*

**APOSTILLE**

(Convention de la Haye du 5 octobre 1961)

1. Stato: Repubblica e Cantone del Ticino (Svizzera)

Il presente atto pubblico

2 è stato firmato da Gianni Masera

3 operante in qualità di notaio

4 è munito del sigillo/bollo di notaio

Attestato 17 NOV. 2009

5 in Bellinzona

6 il \_\_\_\_\_

7 da Cancelleria dello Stato

8 col numero 27455

9. Sigillo/bollo

10. firma:



**CARMELO MAZZA**  
Capoufficio

Tassa Fr. 30.-



1 Paolo Vannucchi

2 CERTIFICATE

3 STATE OF NEW YORK )

4 ) ss.

5 COUNTY OF QUEENS )

6 I, NICOLE CANNISTRACI, a  
7 Shorthand Reporter and Notary Public  
8 within and for the State of New  
9 York, do hereby certify:

10 That I reported the  
11 proceedings in the within entitled  
12 matter, and that the within  
13 transcript is a true record of such  
14 proceedings.

15 I further certify that I am  
16 not related to any of the parties to  
17 this action by blood or marriage,  
18 and that I am in no way interested  
19 in the outcome of this matter.

20 IN WITNESS WHEREOF, I have  
21 hereunto set my hand this 31st day  
22 of October, 2009.

23 Nicole Cannistraci

24 NICOLE CANNISTRACI

25  
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## ERRATA SHEET

**CAPTION:**

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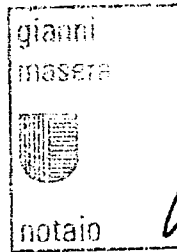
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**Witness Signature:**

Subscribed and sworn to me before this \_\_\_\_ day of \_\_\_\_\_, 200.

Autentica no. **1101** (millecentouno) -----  
Lugano, 16 (sedici) novembre 2009 (duemilanove)-----  
Il Signor **Paolo VANNUCCHI**, nato il 30 (trenta) novembre 1963  
(millenovecentosessantatre), cittadino italiano, residente a Milano,  
persona a me nota, mi ha personalmente dichiarato di aver apposto di  
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In fede: -----

Avv. Gianni Masera, notaio in Lugano



*Gianni Masera, notaio in Lugano.*

APOSTILLE	
(Convention de la Haye du 5 octobre 1961)	
1. Stato: Repubblica e Cantone del Ticino (Svizzera)	
Il presente atto pubblico	
2. è stato firmato da	<u>Gianni Masera</u>
	notaio
3. operante in qualità di	_____
	notaio
4. è munito del sigillo/bollo di	_____
	notaio
Attestato 17 NOV. 2009	
5. in Bellinzona	6. il _____
7. da Cancelleria dello Stato	
8. col numero	<u>27454</u>
9. Sigillo/bollo	10. firma: _____
CARMELO MAZZA Capoufficio	



Tassa Fr. 30 -

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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

GADO S.R.L.

Petitioner,

-against-

JAY-Y ENTERPRISE CO., INC.,

Respondent.

:  
: Cancellation No. 92047433  
:  
:  
:

**PETITIONER'S TESTIMONY – VANNUCCHI DEPOSITION EXHIBIT A**



ANNUAL REVIEW (01) DOLCE & GABBANA

ANNUAL REVIEW (01) DOLCE & GABBANA

ANNUAL REVIEW

01

3 Group profile

7 Vision and mission

9 Competitive advantages

11 Pure and applied creativity

12 Sartorial roots and craftsmanship

17 Brands' closeness to the market

25 Integration and direct control of the entire value chain

41 Corporate Dna and organisational culture

45 Results for 2001/2002

DOUCE GABBANA

## GROUP PROFILE

The Dolce & Gabbana brand was created in 1985 and is now one of the leading international groups in the clothing and luxury goods sector, with a total workforce of 1,200 people, two production facilities and 45 export stores.

The Group's sales channels and distribution channels, knitwear, leather goods, footwear and accessories for the top end of the market. Its two state-of-the-art factories handle the main phases in the production process: from planning and design up to direct distribution to the Group's own stores in the leading multi-brand shops and department stores.

The Group also has exclusive rights to the Dolce & Gabbana and D&G

Dolce & Gabbana fragrance and eyewear brands and the D&G Dolce & Gabbana clothing and watch brands. These merchandise ranges are produced and distributed by licenses with which the Group has solid partnerships.

The style of the Group's products, whether produced in-house or under license, stems directly from the creativity of the two founders.

Domenico Dolce and Stefano Gabbana, who head and co-ordinate a group of approximately 40 creative designers. The Dolce & Gabbana Group brands are distributed in more than 80 countries worldwide.

The main milestones in the Group's growth since its formation are:

- The creation of two proprietary production facilities in 1987 and 2000, and the completion of the distribution network in 2002 by strengthening production capacity and building up a proprietary distribution organisation; the Group aims to control the entire value chain.
- A 48% improvement in consolidated revenues in the financial year to 31 March 2002, to 317.6 million euros. In the same period, EBIT more than doubled, from 17.4 to 43.2 million euros.
- The opening in May 2002 of the new head office in via Galvani 10, Milan. The building, which covers a surface area of about 10,000 square metres, houses offices, showrooms and the Dolce & Gabbana press office. It reflects the change that has taken place with Dolce & Gabbana's growing business success and the move towards a managerial culture. From 1985 regular forms can be used to transport materials were the leading principles of the project for the new building, an architectural solution designed to reflect the Dolce & Gabbana image and style.

GROUP PROFILE

DOLOE, GABBANA

GROUP PROFILE

DOLOE, GABBANA

**Business divisions**  
The Group's organisational structure comprises 5 business divisions:

- Clothing
- Leather accessories and footwear
- Fabric accessories and other lines
- Licences
- Retail

The 5 business divisions have been formed as part of the Group's integration strategy and in response to the general market scenario. Under the current organisational structure, the corporate functions transverse the business units.

**Clothing**

This division is responsible for all production of:

- fabric clothing
- leather clothing
- knitwear

for the Dolce & Gabbana label. The unit was set up in response to strategic and production considerations. In 1999, the company launched a process of industrial verticalisation when it acquired control of Dolce Saverio S.p.A., subsequently re-named Dolce & Gabbana Industria S.p.A., the main clothing licensee. The process continues today with the steps being taken to strengthen the Group's existing production units.

**Leather accessories and footwear**  
This division manages production of:

- leather accessories
- footwear

for the Dolce & Gabbana label. As with the clothing division, strategic and industrial factors led to the decision to produce in-house and the construction of the Incisa Valdarno facility near Florence, a strategic choice of location given that the area is internationally famous for its expertise in the manufacture of high-quality leather goods.

**Fabric accessories**  
This division is responsible for the production of:

- Dolce & Gabbana ties and scarves;
- Dolce & Gabbana men's and women's underwear and beachwear;
- D&G Dolce & Gabbana men's and women's underwear and beachwear;
- the D&G Dolce & Gabbana Baby and Junior clothing ranges.

Once again, the aim is to move closer to the market by eliminating the typical constraints of a licensing approach and integrating production and distribution. In addition to fabric accessories, the unit handles the underwear and beachwear ranges and children's wear.

The division also co-ordinates the D&G Dolce & Gabbana clothing, footwear and leatherwear licence and the D&G Dolce & Gabbana Junior footwear licence.

**Licences**

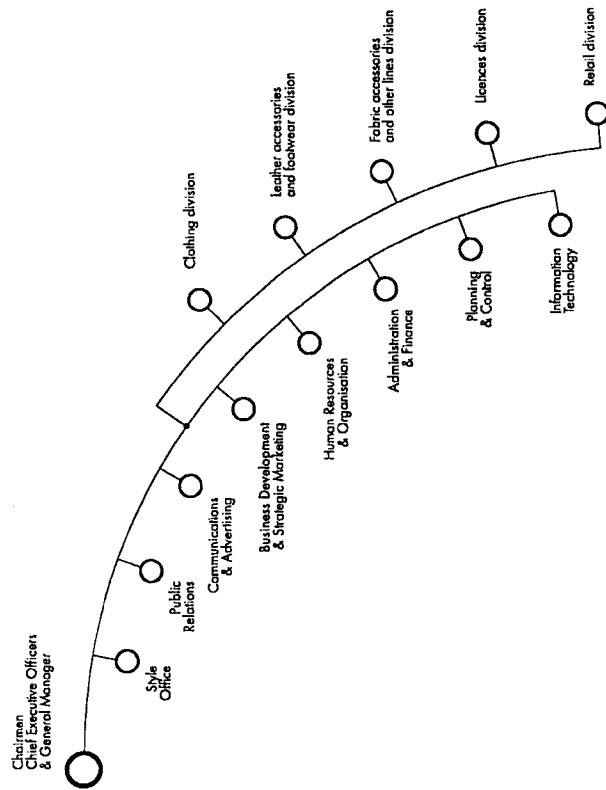
This division handles the following lines:

- Dolce & Gabbana eyewear and fragrances;
- D&G Dolce & Gabbana eyewear, fragrances and watches.

All the licensed lines offer merchandise for men and women. The eyewear, fragrances and watches ranges are still operated under licence, since they require highly specialised production and distribution competences that the organisation does not consider core ones.

**Retail**

This division manages the organisation's proprietary Dolce & Gabbana and D&G Dolce & Gabbana stores. Formed as part of the integration and direct market presence strategy, it completes the value chain cycle by providing a direct interface with the end consumer.



VISION AND MISSION

*At a time when the world is becoming more and more  
diverse, we are proud to be a part of it, as we are proud to be a part of  
the world's most diverse people.*

**Vision**

To be the most successful source  
of inspiration and inspiration  
to our customers and community.

**Mission**

To create a fashion that inspires.

**sacred&profane  
tradition&transgression  
freedom&discipline  
luxury&streetwear  
black&white**

A girl that inspires two minds



COMPETITIVE ADVANTAGES

These are the five competitive advantages on which Dolce & Gabbana has built its worldwide success and established itself as a unique player in the luxury goods industry.

1

Pure and applied creativity

2

Sartorial roots and craftsmanship

3

Brand's closeness to the market

4

Integration and direct control of the entire value chain

5

Corporate DNA and organisational culture



## PURE AND APPLIED CREATIVITY

When our first school shoe collection came out in 1986 it was just two styles. We had existing ourselves for time and making the collection and then adding it to a shoe collection existing and 4) separate ourselves if we can create the shoe. It was just a tiny thing that we had. It was just a tiny thing that we had.

Today, Dele & Calfornia Group with more than 1,200 employees, our headquarters are in more than 150 retail locations in over 100 countries and we have over 100 retail locations.

A foundation to build on. There are many, many ways to do it. It's not just the people who work for us. Each member of the team is a key player. It's not just the people who work for us. Each member of the team is a key player. It's not just the people who work for us. Each member of the team is a key player.

At first, we were not happy with the financial side of things. We were not happy with the financial side of things. We were not happy with the financial side of things. We were not happy with the financial side of things.

It took us a lot of time to get it right. It took us a lot of time to get it right. It took us a lot of time to get it right. It took us a lot of time to get it right. It took us a lot of time to get it right.

We are proud of our achievements. We are proud of our achievements. We are proud of our achievements. We are proud of our achievements. We are proud of our achievements. We are proud of our achievements.

The foundation for all of this is an organizational culture. The foundation for all of this is an organizational culture. The foundation for all of this is an organizational culture. The foundation for all of this is an organizational culture.

It's the belief that the future is bright, we are ready for tomorrow, and we are ready for today.

Dele & Calfornia and Dele & Calfornia  
May 2008 September 2008

Photo: Anthony D'Amico



SARTORIAL ROOTS AND CRAFTSMANSHIP



Dolce & Gabbana combines the appeal of fashion, quality fabrics and technical expertise with passion, treating garments to enhance the appearance of their wearer. The Group's sartorial origins underline its corporate culture and practices, and can be seen in the minute attention to the design, details and finish of its garments, with the result that Dolce & Gabbana is the most valued offer in the ready-to-wear industry.

The development of the Dolce & Gabbana Group since 1982 reflects the great importance of its sartorial roots, while its rapid growth testifies its outstanding craftsmanship.

1982

**Parasites**  
Durre and Duke  
and Stefano's children  
open their first studio

1985

**October**  
Debut of the Duke &  
Catharina Band with their  
new shape of Milan in  
Columbus square  
New Takers arrive

1986

**March**  
Presentation of the  
first in-house  
printed in case of our  
and "Red Woman"  
Fashion show

1987

**March**  
Presentation of the  
first in-house at Fashion  
**August**  
Opening of the first  
showroom in  
Santa Chiara / 14/15

1988

**October**  
Raffaello's first production  
as part of the Duke  
Series for the Italian firm  
Selected by Durre and  
Duke's family in England  
and Milan

1989

**April**  
First in-house with  
the first order in Tokyo  
**July**  
First order received at  
Fashion show collection

1990

**January**  
First in-house  
with the first order  
**April**  
First in-house with the first  
order in New York  
**November**  
Collection for  
New York showroom  
of *Vite Preservate*

1991

**June**  
Victory in the first  
international contest  
for the first order  
**September**  
First in-house collection  
for the first order

1992

**January**  
First in-house  
for the first order  
**July**  
First in-house  
for the first order  
**October**  
First in-house  
for the first order  
Duke & Catharina's first  
collection produced  
and sold by  
Euro Italia



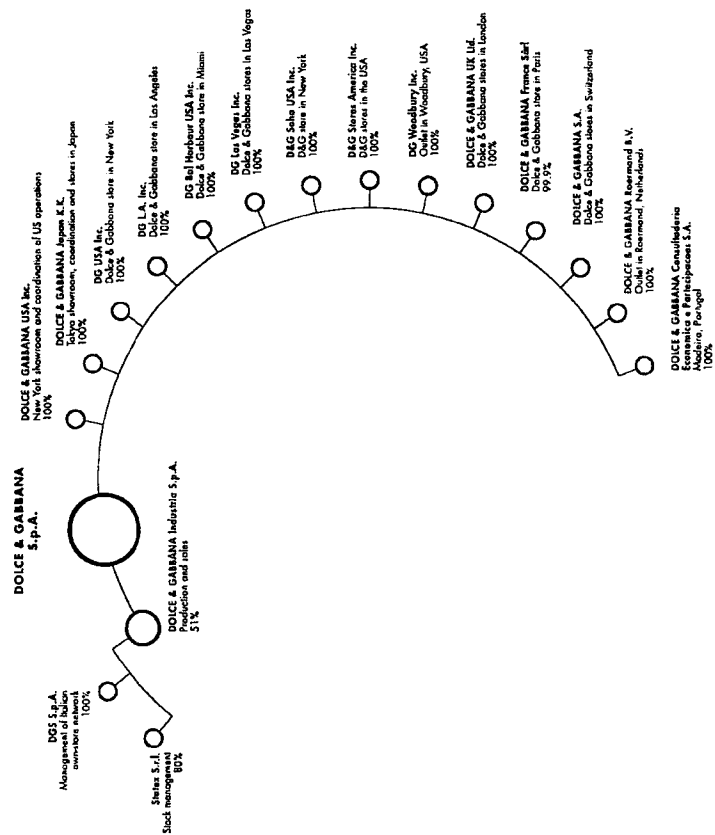




SARTORIAL ROOTS AND CRAFTSMANSHIP

DOLCE & GABBANA

**Corporate structure**  
Organisation chart  
of the Dolce & Gabbana Group  
as of 30 September 2002.



## BRANDS' CLOSENESS TO THE MARKET

*Dolce & Gabbana is in close touch with the market, with an intimate understanding of the people who share its high-end and very distinctive style. The designers find creative inspiration in high street culture, reinterpreting and elevating the accessories and elements of Italian cinema.*

*Direct experience of reality is the basis for the Dolce & Gabbana dream, whose life is based on the fact of everyday life being so, with clothes that become almost a second skin in their magical, so poetic, unattainable simplicity.*

### Group brands

The two Group brands, Dolce & Gabbana and D&G Dolce & Gabbana, are expressions of the same creative spirit, but they stem from two different sources of inspiration which translate into two quite different market positions.

Dolce & Gabbana is the "Dream" distinctive creations that offer sophisticated, contemporary luxury for an elite customer.

D&G Dolce & Gabbana is luxury, a brand for a customer who enjoys a comfortable lifestyle that is looking for a personal dressing style in a free, non-institutional approach to fashion.

### Dolce & Gabbana

#### Positioning

A luxury brand at the forefront of the market where it competes with the traditional luxury labels and a few prestigious newcomers. Proven identity, impressive innovation and seasonal content have turned Dolce & Gabbana into a brand with a unique and instantly recognisable image.

### Distribution

Consistently with the brand's positioning, distribution is highly selective. Dolce & Gabbana is available in the world's top locations, in the Group's own mono-brand boutiques and franchise outlets and in the best multi-brand shops and department stores.

### Target

Dolce & Gabbana is a men's and women's label for a clientele aged between 25 and 50 and a core target between 30 and 40. The Dolce & Gabbana men and women are outgoing individuals who get the most out of life, love fashion and see clothes as a means of expressing their personality and their approach to being.

**D&G Dolce & Gabbana****Positioning**

This top brand is not intended as a secondary line, but as the first Main Line dedicated to young people. Positioned at the high end of the market, it competes with the leading names in fashion jeans and ready-to-wear.

**Distribution**

D&G is distributed on a selective basis to the best multi-brand shops and department stores, as well as mono-brand stores run directly or under franchise.

**Target**

The D&G client is aged between 15 and 35, with a core target of 20 to 30. Although the brand offers both menswear and womenswear, essentially it looks beyond traditional distinctions to provide a reference for innovators and trendsetters: people who love irony and contradiction in fashion, based on a mixture of different styles.

**Brand value and evolution**

Image and communication have always played a key role in creating and consolidating the Dolce & Gabbana brand. As an organisation distributing multiple lines on international markets, the Group varies the objectives of its communication strategy according to the degree of brand recognition attained in each market. Strategic communication goals range from boosting brand awareness to channelling brand identity on the market, through a broad selection of brand-building tools.

**Advertising campaigns**

With the growing success of the Dolce & Gabbana brand, its extension to other merchandise categories and the launch of D&G Dolce & Gabbana, communication strategies and operations have changed significantly. Early communication was highly evocative: the brand and products kept a low profile, while attention focused on suggestion and emotion. Over the years, however, the product has become more important, photographic work has moved from black and white to colour, the Dolce & Gabbana woman has evolved and communication has taken a more dynamic, less iconographical approach.

The first advertising campaigns, shot in Sicily by Italian photographers (Ferri, Scianna and Barbieri) in the second half of the 1980s, reflect the absolute correlation between the stylists' message and their inspiration. Baroque art, the Mediterranean and its sensual women are the unchallenged protagonists of these photographs, shot in a robust black and white that conveys the colours, scents and character of the people of Sicily. The photos were used to illustrate catalogues of the highest production and graphical quality, which acquired the status of collectors' items as they appeared in trade publications around the world, boosting awareness of the Dolce & Gabbana brand and style. The meeting with one of the masters of the camera - Steven Meisel - came later (1993). And Sicily emigrated to New York, interpreted by a remarkable photographer who wholeheartedly embraced the Dolce & Gabbana philosophy, giving it a modern, international connotation but never losing sight of the brand identity. After Marpessa, a testimonial with a Sicilian style, the sensual Dolce & Gabbana woman was personified by Isabella Rossellini, Veruschka and Linda Evangelista. Other equally important projects were developed with photographers Michel Comte, Mario Sorrenti and Helmut Newton (1994).

The advertisements showed Domenico Dolce and Stefano Gabbana wearing their creations, portraying them as key figures, because Dolce & Gabbana can be declined in the masculine as well as the feminine, in a strong style where superior product quality goes hand in hand with unequivocal elegance.

In the last few years, the organisation has strengthened its ties with Steven Meisel and begun experimenting with colour photography. And it has been fortunate enough to meet Ciele, the perfect Dolce & Gabbana woman, versatile, resourceful, constantly changing, like the brand she represents.

**Dolce & Gabbana and the star system**

One of the key elements in Dolce & Gabbana's image is its association with personalities from the world of cinema and entertainment. These activities always begin in spontaneous fashion, very often as the result of the artist's friendship with the stylist or of special requests to be dressed by Dolce & Gabbana for their shows. The best known name is Madonna, who asked Dolce & Gabbana to design the costumes and staging for the New York and London shows of her Music tour. A passion for Dolce & Gabbana creations also led to co-operation with Whitney Houston in 1999 and Kylie Minogue in 2002.

*Media strategy*

The advertising budget and strategy have grown as the Group has expanded. Communication channels have diversified from traditional advertising in the trade press to major campaigns in national and international daily and weekly publications, hoardings and the launch of an official website. Among the various advertising tools and channels used by the Group, press campaigns have always been a core element.

The campaigns devised for the Dolce & Gabbana and D&G Dolce & Gabbana brands are published in top-quality publications, specialist journals in the fashion industry, news magazines and daily newspapers. Advertising communication for eyewear, fragrances and watches uses the same channels as well as high-impact media. The Group's fragrances, for example, are also publicised in television and cinema commercials.

The institutional website, [www.dolcegabbana.it](http://www.dolcegabbana.it), which provides illustrated information about the Group brands, went on line in 2000.

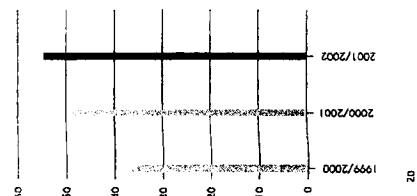
*Communication investments*

Communication investments for the financial year 2001/2002 amounted to 54.6 million euros, equivalent to approximately 10% of wholesale revenues, that is, revenues from Dolce & Gabbana and D&G Dolce & Gabbana label product sales by Group and third-party producers. In the previous financial year, Group communication investments totalled 48.8 million euros, representing about 12% of wholesale revenues.

**The own-store concept as a mirror of the evolution of the Dolce & Gabbana brand**  
The development of the Dolce & Gabbana boutique concept reflects, and is the result of, the growth and changes that have taken place in the brand and in the organisation as a whole.

The objective of the two stylists is to turn the boutiques into vehicles for the values and symbols of the Dolce & Gabbana world. In achieving this transformation, the boutiques have undergone three different phases: Baroque, Modern and Sicilian Minimalism.

Communication investments in millions of euros



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**Baroque**

This was the first stage, from 1990 to 1997, before the brand had fully acquired its distinguishing characteristics and before the product was immediately identified as Dolce & Gabbana. The goal, therefore, was to develop a powerful concept based on elements suggesting the brand's Sicilian identity. During this period, window displays were artistic creations in a theatrical style evoking the traditions of Sicily, such as the ceramics of Caltagirone, Mediterranean lace and vegetation. The interiors featured Venetian stuccowork on the walls, original baroque furnishings, decorative flooring and patchworks of luxurious velvets.

**Modern**

From 1997 to 1999, Dolce & Gabbana began the transition towards today's minimalist style. This phase, best defined as Modern, was a response to the need to subdue the theatrical elements in the mono-brand stores and put the spotlight on an increasingly important product.

The Venetian stuccowork was replaced with walls painted in light, airy colours; the marquetry of the floors disappeared in favour of a more neutral approach; the typical materials of modern style -- satin-finish steel, crystal shelving and cabinets -- were introduced, next to sofas upholstered in red velvet. As the shops became brighter and the Sicilian effect was softened, the products and brand emerged in full force.

**Sicilian Minimalism**

Since 1998, Minimalism has been the guiding principle of the shop concept: the store is no longer the centre of attention, but a container for the brand and, above all, for the products, which are now unmistakably Dolce & Gabbana. Inside the stores, the use of basalt for the floors, walls and other elements creates a monochromatic, almost monolithic atmosphere, conveying the solidity of brand.

An attractive sobriety is the key to the interior decor today: the concept continues to reflect the brand's Sicilian roots and draws on the same iconography, but in a more essential form, to give an altogether lighter look. Huge cactus plants in antique Sicilian earthenware pots, paintings, baroque furnishings, black chiffon at the windows, cardinal-red velvet and Mediterranean vegetation are the ingredients that create the distinctive style of the Dolce & Gabbana store.

**Dolce & Gabbana and D&G Dolce & Gabbana collections**

All the collections stem from the creative genius of Domenico Dolce and Stefano Gabbana. The two stylists have direct control over the entire creative process; they design the collections and head the Style Office for clothing, leather goods and footwear. Supported by the members of their creative team, with their varied but complementary skills, they design the collections, produce the sketches and choose fabrics and colours. The entire process is based on Domenico Dolce and Stefano Gabbana's ability to combine creative intuition with an understanding of the needs of the people who wear their clothes. As a result, the Dolce & Gabbana and D&G Dolce & Gabbana collections achieve a perfect balance between style and practicality.

**Dolce & Gabbana**

The Dolce & Gabbana brand offers a total look for men and women: clothing, leather accessories and footwear, scarves, ties and other fabric accessories, underwear and beachwear, costume jewellery, fragrances and eyewear.

The Main Line clothing and leather accessories collections are presented for the traditional industry seasons: Autumn/Winter and Spring/Summer. Both the men's and the women's lines have two presentations for each season: the pre-collection and the main collection, which come out through different channels and differ in content.

The pre-collection, presented ahead of the main collection, is shown to clients in the sales showrooms, whereas the main collection is presented at the fashion shows, according to the calendar drawn up by Italy's National Chamber of Fashion.

**D&G Dolce & Gabbana**

This brand too offers a total look for men and women: clothing, leather accessories, footwear, underwear and beachwear, eyewear, fragrances and watches. The D&G Dolce & Gabbana brand also has clothing and footwear ranges for children. The D&G menswear and womenswear collections are presented on a seasonal basis depending on the type of product: jeans and ready-to-wear. There is also a collection preview, for women's items only. A different calendar is used for eyewear and watches: three eyewear collections are presented, in May, October and January/February, while the three watch presentations take place in April, May and September.





## INTEGRATION AND DIRECT CONTROL OF THE ENTIRE VALUE CHAIN

*The Group's integrated value chain strategy. Through Dolce & Gabbana Industrie S.p.A. production steps, as in the production process for clothing, footwear and leather accessories and in retail stores, the Group controls the entire value chain, from design to production, distribution and retail.*

### Production Dolce & Gabbana Industrie S.p.A. and production facilities: Lepignano and Lucina Valdarno

The Dolce & Gabbana Group has two production facilities. The site in Lepignano (near Milan) is responsible for the production of:

- clothing for the Dolce & Gabbana collection and accessories, labels and the D&G, Dolce & Gabbana Baby and Junior labels;
- Dolce & Gabbana ties and scarves;
- mens and womens underwear and linens for Dolce & Gabbana and D&G Dolce & Gabbana.

The Lucina Valdarno factory, near Florence, handles production of the following mens and womens items for the Dolce & Gabbana brand:

- shoes;
- bags;
- small leather goods;
- travel accessories;
- hats.

The Lepignano plant has optimised operations to meet the Group's seasonal production requirements and manage its human resources accordingly. With its existing facilities, it has a production capacity of 1,000,000 garments a year for the Main Line and 3,000,000 items a year for the accessories, underwear and underwear ranges.

Plus, extensive verticality allows the plant to double its annual clothing output (knitting and knitted). As far as accessories, underwear and leatherwear are concerned, specific production factors apply and capacity can be raised by as much as 20% without the need for structural modifications.

The Lucina Valdarno plant currently handles 600,000 items a year, a volume that could be increased by the extensive works that is planned for this site.

High investments were channelled into production capacity in 2006 and 2007. For amounts totaling 1.5 and 5.5 billion euros respectively, as in the Group was expanding its two manufacturing facilities. Production investments for financial 2007/2008 amounted to 6.9 billion euros.

At 30 September 2008, the Lepignano plant had a workforce of 346 people, while Lucina Valdarno had 187 employees.

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The Legnano plant has now achieved its industrial targets. Monitoring of a series of specific indicators during financial 2001/2002 produced the following results:

- Order delivery rate: this indicator met the company target of at least 97%; the figure does not include re-assortments
- Product defect rate: after completion of all controls and any re-conditioning measures that may be needed, the product defect rate has been cut to 1%.
- Raw material orders do not exceed 105% of actual requirements.
- The percentage of products put into production in relation to confirmed orders is not more than 105%.

At the Incisa plant too, production efficiency and effectiveness indicators are aligned with the Group's targets and with industry standards:

- order delivery rate: 98%;
- product defect rate: 1%.

This impressively low defect rate is the result of effective product quality checks:

- raw material orders do not exceed 103% of actual requirements.

**Production organisation**  
**Dolce & Gabbana**  
 Production of all Main Line clothing and accessories takes place at Legnano, while the products of the leather accessories and footwear division are manufactured at Incisa Valdarno. Dolce & Gabbana eyewear and fragrances, for men and women, are produced under licence.

**D&G Dolce & Gabbana**  
 Production and distribution of clothing, leather accessories, footwear, eyewear, watches and fragrances for the D&G label are handled on a licensing basis. The brand's fabric accessories are manufactured by specialist laboratories and producers co-ordinated by Legnano, as are items for the D&G Baby line (boys/girls from 2 to 6) and the D&G Junior line (boys/girls from 6 to 14); footwear is manufactured under licence by a company that specialises in children's shoes.

**Production process**  
 The Dolce & Gabbana Group employs state-of-the-art technology in its production process. The use of technology in production operations makes labour-intensive activities faster and more efficient by decreasing workers' physical workload and simultaneously improving safety on the lines. On the other hand, all brain-intensive activities, which require a higher input of creativity and experience, are entrusted entirely to the skills and knowhow of the experts. Systems with a high technology content are used not only for the production cycle, but also for centralised management of the areas that activate and control the production lines.

As a user of sophisticated plant, Dolce & Gabbana belongs to GreenLight, a European programme that promotes efficient use of power to improve the quality and performance of lighting systems.

**Production at the Legnano factory**  
 The first phases in the production process are creation and design. The Group's model and prototype department produces paper models, prototypes and samples for the sales campaign. It is here that the stylists' creations are industrialised.

On the clothing and fabric accessories production lines, all design work from the sketch to the paper model is performed manually, while the subsequent stages, when the paper models are digitalised, sizes are created, and fabrics are placed and cut, are assisted by CAD/CAM systems.

Cutting is performed by hand for special models or for fabrics where a high quality can only be maintained with manual procedures.

The garments are made up externally, by a select group of specialist laboratories. The jobbing laboratories and firms used by Dolce & Gabbana adopt a "made in Italy" philosophy geared to superior product quality.

Enormous importance is attached to quality control, with checks performed at different stages along all production lines. Dolce & Gabbana runs specific internal and external checks to ensure compliance with its exacting standards.

The main controls are:

- pre-production fabric tests;
- pre-prototype checks on garment construction and components;
- line checks at jobbing tailors;
- post-production checks on all ranges;
- sample-based final tests before delivery to the client.

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**Production at the Incisa Valdarno factory**  
 Models are designed and samples are produced in-house, on the basis of input received from the Style Office in Milan. The creation of footwear and leather goods, too, is co-ordinated directly by Domenico Dolce and Stefano Gabbana. Prototypes and samples are produced manually or using CAD/CAM systems and special tools and equipment.

Engineering and industrialisation is an iterative process to eliminate defects and optimise products. It is performed entirely on site, using a trial and error procedure that ends when the product receives final approval.

In-house checks are performed on materials, and those that are judged suitable are sent out to subcontractors or sold to production laboratories. Once production is complete, the finished items are checked by specialised personnel at the Dolce & Gabbana facility.

**Production integration strategy**  
 Dolce & Gabbana's transformation from a Maison into a luxury goods manufacturer is the result of a strategic decision to attain market leadership. Therefore, in order to realise the full potential of all its product lines and merchandise categories, the Group had to eliminate the typical constraints of standard licensing contracts and gain direct control of its production and distribution operations.

During 2000, as the licences for ties, scarves, underwear and beachwear expired, production and distribution operations were taken over in-house; footwear and leather goods followed in 2001.

Merchandise that requires specialised production and distribution skills – eyewear, fragrances and watches – continues to be handled on a licensing basis. Production and distribution of clothing, footwear and leather goods for the D&G Dolce & Gabbana brand continue to be managed under licence, for two related reasons: the decision to focus the company's production and distribution competencies on the Dolce & Gabbana brand, and the fact that, for the D&G label, the organisation has a long-standing partnership with a licensee with whom it has developed a perfect understanding as regards strategic goals and business management.

The importance of the industrial side of the business is confirmed by the enlargements Dolce & Gabbana is planning for the Legnano and Incisa Valdarno facilities.

A new operating unit will be created at Legnano with a total surface area of 28,000 square metres, of which 8,000 will be used for the staff car-park. The extensions planned for Incisa Valdarno will bring the total surface area to approximately 17,000 square metres.

Production strategy aims at an effective customer service and efficient production planning and management.

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**Distribution**

Dolce & Gabbana's distribution and marketing strategy addresses two main groups of buyers:

- the wholesale channel (multi-brand shops and department stores);
- end consumers served through the Group's own stores.

The Group deploys specific distribution strategies, channels and methods for the two different groups.

**Sales to the wholesale channel**

The wholesale channel consists of third-party retailers who sell the Group products around the world:

- the Dolce & Gabbana Main Line is distributed by about 540 multi-brand stores;
- D&G Dolce & Gabbana clothing is distributed worldwide through approximately 2,300 multi-brand stores and 16 mono-brand shops run either as franchises or as in-store shops;
- fabric accessories, fragrances, eyewear and watches are distributed on a broader scale, in line with the characteristics of the products and specialist channels.

The Group displays its products in its showrooms, where the Dolce & Gabbana clothing, leather accessories and footwear collections are presented to the wholesale channel. Milan, New York and Tokyo are the three showroom locations.

Fabric accessories are distributed throughout Italy by 11 area agencies with their own showrooms and specialised staff.

The agents selected by Dolce & Gabbana handle distribution to individual retail outlets, mainly up-market multi-brand clothes stores, leading department stores, proprietary mono-brand shops and duty-free stores. Overseas distribution is co-ordinated through 13 exclusive distributors. The Group also uses two showrooms (Milan and Legnano) to handle large accounts, press relations and promotional and PR work.

**Worldwide distribution locations**

- To all intents and purposes, the new premises in via Goldoni 10, Milan, are the headquarters of the Dolce & Gabbana organisation. The imposing building houses the head office, three floors of showrooms and the press office, as well as areas set aside for public relations activities, including a restaurant decorated in the Dolce & Gabbana style. In the spacious showrooms, clients can view all the products in the collections and place their purchase orders, with the assistance of specialised personnel.

- The New York offices of Dolce & Gabbana USA Inc., set up in 1992 and wholly owned by Dolce & Gabbana S.p.A., are responsible for the development of the Group brands across America. Dolce & Gabbana USA Inc. is in charge of the wholesale channel, communication and PR, while management of the proprietary sales stores is handled by satellite companies co-ordinated by the local subsidiary.
- The Dolce & Gabbana Japan K.K. premises in Tokyo were opened in May 2002, and house the offices of the Japanese subsidiary, which is wholly owned by Dolce & Gabbana S.p.A. Dolce & Gabbana Japan K.K. was established in August 2001 to co-ordinate retail and PR operations in Japan, with close support from the parent company. Its goal is to boost penetration of the Japanese market by opening new free-standing or in-store sales shops, and to run the existing stores, which have been taken over from the previous exclusive distributor for Dolce & Gabbana and D&G Dolce & Gabbana in Japan. The distributor continues to handle sales to multi-brand stores.

*Distribution in the wholesale channel*  
 Sales of Main Line clothing and leather accessories to the wholesale channel coincide with the collection presentations. Sales campaigns last from a minimum of two weeks to a maximum of four, including preparations.

Dolce & Gabbana enhances its customer service with pre-show presentations, to bring deliveries forward and ensure that merchandise shipments to retail outlets run as smoothly as possible. This system also allows the Group to meet the various delivery requirements of the international markets.

The Group employs a highly selective distribution policy aimed at in-depth penetration rather than simple market coverage. In selecting its wholesalers, therefore, it looks for clients who match the positioning of the Dolce & Gabbana brands, and with whom long-term ties can be built up. The key elements in these relationships are the quality of the Dolce & Gabbana collections, the quality of service offered by the wholesaler and the reliability and professionalism of the sales shop.

#### Sales to the end consumer through own stores

Products are sold direct to the end consumer when the Group distributes without the aid of intermediaries, through its own stores.

The expansion of the retail channel with mono-brand stores managed directly by the Group is part of the strategy to integrate the final stages in the value chain. The objective is to acquire a direct window on the market and project the right brand image, by eliminating the restrictions of the wholesale channel and building consumer loyalty. At 30 September 2002, the Group had 501 employees working in its retail division and the Group boutiques: 220 in Italy, 53 in the rest of Europe, 114 in Japan and 114 in the USA.

#### Distribution to the end consumer

Proprietary stores handling the Dolce & Gabbana brand numbered 29 as of 30 September 2002: 11 in Italy, 3 in the rest of Europe, 3 in the USA and 12 in Japan; of these, 10 were taken over from the Japanese distributor and are managed by Dolce & Gabbana Japan K.K.

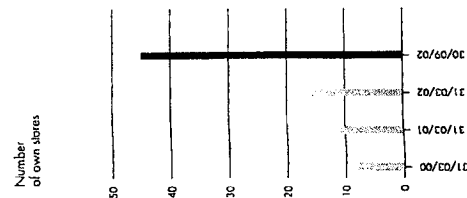
An additional 8 stores will be opened by 31 March 2003: 2 in Italy, 1 in the USA and 5 in Japan. For the D&G Dolce & Gabbana brand, the Group had 16 own stores at 30 September 2002: 5 in Italy, 2 in the USA and 9 in Japan, including 8 purchased from the Japanese distributor and now managed by Dolce & Gabbana Japan K.K. An additional 11 stores will be opened by 31 March 2003, 4 in the USA and 7 in Japan.

The Group also operates 6 outlets for direct sales of left-over stock: 3 in Italy (Legnano, Serravalle and Incisa), 2 in Europe (Mendrisio and Roermond) and 1 in the USA (Woodbury, NY).

#### Management of own stores

Through the Dolce & Gabbana proprietary boutiques, the Group is able to guarantee a uniformly high standard of service. The customer who comes into one of the Group's own stores enters the Dolce & Gabbana world and will be helped by sales staff to understand the finer points of the collection.

The Group aims to build an exclusive relationship with the consumer and turn the boutique into the store of choice, the place where customers go because they know they will find the right product for their needs. Sales staff receive full training in relational techniques and customer-oriented management.



Dolce & Gabbana uses a variety of relationship marketing initiatives to enhance customer loyalty, including trunk shows, sales of one-off items, direct mailing and personalised activities developed on the client database and the results of segmentation analyses of clientele at the sales stores.

The Group also takes action higher up the value chain – merchandising studies and analysis of purchasing patterns – to strengthen relations with end customers and optimise product management.

At 31 March 2001, investments in own stores totalled approximately 8 million euros. In financial 2001/2002, the Group invested 45.7 million euros in its own stores, of which 35.2 million euros in Italy and other European countries.

#### Management of licensing operations

As far as products handled under licence are concerned, the Group draws up strategic guidelines for its licensees. Specifically, Dolce & Gabbana aims at innovation and stylistic originality in line with market requirements, through an offer consistent with its brand prestige and its attention to details and quality control. Its licensees are also a tool to support its brand positioning and boost brand awareness. The goal of the Group's growth strategy is to boost penetration in the main markets – the USA and Europe – and expand distribution worldwide, especially in the Far East and Japan.

#### Clothing

The D&G Dolce & Gabbana clothing range, as well as leather accessories and footwear, are produced and distributed by Jillette S.p.A., a company in the IT Holding Group. The licence, which was recently renewed, runs for a four-year term, until the 2006 Autumn/Winter collection.

Since renewing the licence, Dolce & Gabbana has introduced a new organisational structure that extends its reach to all areas of management of the D&G brand, in close co-operation with Jillette S.p.A. As a result, in addition to style activities, the Group is now also involved in brand management, public relations and press office operations for the D&G Dolce & Gabbana brand.

The brand management team's objectives are to improve the brand's business results, image and qualitative positioning by strengthening the content of the first Main Line totally dedicated to young people. The areas marked for priority action are sales, product marketing and development, visual merchandising, retail and production planning, as well as general coordination of contract management operations. Communications and editorial work are handled by a special corporate Dolce & Gabbana unit, whose goal is to raise coverage of the D&G Dolce & Gabbana collection in the international press and consolidate brand image and visibility through special events and promotional activities.

**Fragrances**  
Dolce & Gabbana and D&G Dolce & Gabbana fragrances are produced and distributed worldwide by EuroItalia S.r.l., under the terms of a licensing agreement that expires in 2005.

Dolce & Gabbana carefully monitors all operations that concern image, distribution and promotion.

In particular, the Group provides a creative briefing, selects fragrances, packaging and sales materials based on proposals submitted by the licensee, plans communications and approves the media plan and price lists drawn up by the licensee.

All marketing operations, including public relations, promotional materials for retail outlets and events must be approved by Dolce & Gabbana.

#### Eyewear

Marcolin S.p.A., in which the Group owns a 6% equity investment, is the Dolce & Gabbana licensee for the production and distribution of Dolce & Gabbana and D&G Dolce & Gabbana eyewear.

The licence expires in 2005.

Dolce & Gabbana retains exclusive ownership of creativity and controls the licensee's image, products, distribution and promotion operations.

The Group approves packaging from projects submitted by the licensee and material for sales outlets, as well as price lists. It also develops advertising and promotional themes, selects media, and manages the PR budget and operations in Italy.

The agreement also provides for the licensee to cover operations in the rest of the world, under Group coordination. As with fragrances, all marketing operations must be approved by Dolce & Gabbana.

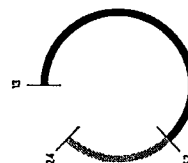
#### Watches

The watches in the D&G Dolce & Gabbana range have been produced and distributed by Binda S.p.A. since 1999. Dolce & Gabbana has exclusive ownership of product creativity. It provides the licensee with creative briefings for projects and monitors operations relating to image, products, distribution and promotion.

Dolce & Gabbana develops packaging from a range of proposals submitted by the licensee and approves materials for sales outlets in line with the brand image. The Group is responsible for advertising and promotional themes, media selection, approval of prices lists and all marketing operations.

2001/2002  
consolidated revenues  
in %

■ Industrial operations  
■ Retail  
■ Royalties





**Gado S.a.r.l. v. Jay-Y Enterprises Co., Inc.**  
**Cancellation No. 92047433**  
**Petitioner's Testimony**

**Support operations**

**Purchasing efficiency**

In order to meet delivery schedules and guarantee excellent customer service, raw materials are purchased in part on a provisional basis, before orders have been taken.

A team of experts estimates probable raw material requirements. Later, during the sales campaign, their estimates are checked and adjusted, where necessary, to ensure on-time delivery. Dolce & Gabbana adopts a raw materials overstock risk policy, based on actual requirements.

With its long-term suppliers, with whom it has built up strong partnership ties, Dolce & Gabbana draws up preliminary commitments to permit joint planning of production. This type of agreement benefits both the company and its suppliers, whose co-operation with Dolce & Gabbana gives them early visibility on new fashion trends.

**Logistics**

Integration of technology and information systems also permits improved service standards in warehouse and logistics management.

In the Group's fully automated warehouses, incoming merchandise is precisely identified and submitted to strict quality checks. Products that comply with requirements automatically move on to packaging.

Since delivery policy is geared to optimising customer service, shipments are organised by collection, customer locations or assortments.

The Legnano warehouse can store approximately 200,000 hanging garments and 100,000 folded garments, with a shipment rotation cycle that can manage 500,000 garments per season. In addition to its in-house warehouses, the company uses an external 4,500 square-metre automated warehouse, also in Legnano.

Similarly, the Incisa Valdarno warehouse is organised to handle the complexities of the various product lines and arranges shipments to the Group's own stores and individual customers around the world.

**Development of information technology**

The Group's rapid business growth and corporate expansion have led to significant advances in its information systems, which have been upgraded to meet the growing complexity of its direct business operations.

Dolce & Gabbana has turned itself from a mono-product, mono-brand, mono-division company into a multi-product, multi-brand, multi-division organisation, with two production sites deploying state-of-the-art technology.

The main goal of this transformation was to optimise results in relation to costs and very tight delivery schedules. As far as costs are concerned, overall investments in IT system upgrades can be broken down into the following main cost categories: 30% internal personnel, 30% consultancy, 5% software, 35% hardware and equipment.

A very important first step in the changeover was the introduction, in 1999, of an integrated management system for all own stores worldwide. With its advanced cash and warehouse management capabilities and outstanding flexibility, the new information system has enabled the Group to improve control of distribution in its own stores.

Another important development was the management system upgrade, following the creation of the fabric accessories division. With the diversification of production, Dolce & Gabbana changed from a purely manufacturing operation into a production and distribution operation.

Initially, the Group adopted a make-to-order system and organised its warehouse by customer boxes, an arrangement typical of high-class clothing manufacturers. Today it also uses a make-to-stock production system, based on sales forecasts, and organises its warehouse by product codes. This system permits management of a continuous product offer and supports the service standards required by the accessories sales channel, for example, frequent deliveries.

As part of the development of its management system, the Group has introduced a sales force automation programme and implemented a web-based tool that allows it to check order status at supplier laboratories. It has also installed a customer relationship management module; this uses browser technology to monitor orders, so that the internal customer service and agents can respond immediately to customer enquiries.



## CORPORATE DNA AND ORGANISATIONAL CULTURE

*Diageo & Galliano's strength lies in the people, a combination of the human resources and the company management and the organisational structure, and in the solid professional and personal understanding needed by the two teams and transmitted to the entire organisation. Today the Group is a whole working together to achieve the corporate mission, an organisation that respects and appreciates the value and abilities of an individual.*

The human resources management system is based on a key guiding principle: the integrity and success of the company are directly linked to the growth of the people who work for it.

Diageo & Galliano adapts a set of powerful organisational values that inform every level of the Group structure.

- Work is a means of self-realisation. This working-inspired principle is the foundation of the company's personnel management policies.
- Diageo & Galliano people are respected as individuals as well as for their competences.
- Transparency and fairness are the basis for inter-personal relationships and human resources management.
- The organisation adopts a balanced, concrete management style which respects the market and its parameters.
- The company assesses the commitment and contribution of each resource in achieving the company goals and bases its reward system on these criteria.

The Group regards its people as value resources, in other words as key growth factors. Consequently the main objective of the Human Resources and Organisation Office is to optimise career paths and support skills growth.

The arrival of new recruits sets off a rapid internal information flow to present the new employee to the rest of the staff. The new recruit is given a general introduction to the company and its organisational structure, various aspects of which are then illustrated in greater detail depending on which section the person is employed.



Finally, a company tutor is assigned to the new recruit. The tutor flanks the employee's immediate superior and assess their integration through a series of appraisal procedures.

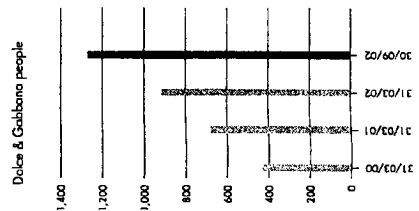
The Human Resources and Organisation Office is also responsible for drawing up incentive systems. Under the company pay policy, specific qualitative or quantitative targets are set according to the particular characteristics of each function. Similarly, appraisal and incentive systems are based on different models in different Group companies.

The focus on people management is also reflected in the number of training hours effected in 2001/2002.

The main areas in which training was provided were information technology, customer service and languages, for a total of 2,832 hours.

Dolce & Gabbana is a very young company: the average age of its workforce, in Italy and in the overseas subsidiaries, is 33.

At 30 September 2002, the Group had a worldwide workforce of 1,269 employees: 905 in Italy and 364 overseas.



# RESULTS FOR 2001/2002

For the year, at 2001/2002, the Group reported consolidated revenues of 317.6 million euros, an improvement of 18% from the previous financial year. Profit, now from 27 to 54.2 million euros, while Ebit more than doubled, from 17.4 to 45.2 million euros. Growth was even stronger in consolidated net income (excluding minority interests), which rose from 7.7 to 23.3 million euros for the financial year to 31 March 2002.

Dale & Gabriel's sales volume and profitability performance, the validity of its industrial, commercial and marketing strategies.

Consolidated revenues for the year to 31 March 2002 arose approximately as follows:

- 65% from industrial operations;
- 24% from retail;
- 13% from royalties

Figures in millions of euros

Consolidated income statement	31/03/00	%	31/03/01	%	31/03/02	%
Industrial sales	537	44.5	1271	59.3	2,007	63.2
Retail sales	287	23.8	486	22.7	745	23.5
Net sales	824	68.4	1757	82.0	2752	86.7
Licensing revenues	380	31.6	386	18.0	424	13.3
Total revenues	1204	100.0	2143	100.0	3176	100.0
Cost of sales	475	39.4	933	43.5	1465	46.2
Gross margin	729	60.6	1210	56.5	1711	53.8
Selling, general and administrative expenses	620	51.5	940	43.9	1219	38.4
Finida	10.9	0.9	27.0	1.2	55.2	1.7
Depreciation and amortisation	6.8	0.6	9.6	0.4	10.0	0.3
Ebit	4.1	0.3	17.4	0.8	45.2	14.2
Financial expenses/(income)	0.9	0.0	2.1	0.1	3.2	1.0
Other expenses/(income)	(0.5)	(0.0)	(0.5)	(0.0)	(0.2)	(0.0)
Ebt	3.7	0.3	15.8	0.7	42.0	13.3
Taxes	3.2	0.3	8.1	0.4	18.9	6.0
Net income	0.5	0.0	7.7	0.4	23.3	7.3
of which minority interests	(0.2)	(0.0)	4.8	0.2	8.6	2.7

Wholesale revenues totalled 552.6 million euros, an improvement of 34% from the previous year. Wholesale revenues consist of Dolce & Gabbana and D&G sales by Group and third-party producers.

They arose as follows:

- 54% from clothing;
- 34% from fragrances, eyewear and watches;
- 6% from fabric accessories;
- 6% from the leather accessories and footwear division.

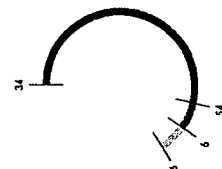
In geographical terms, the majority of wholesale revenues arose in Italy and the rest of Europe (34% and 38% respectively), followed by the USA and Japan with 16% and 4% respectively. The USA and Japan are two areas with important potential in which the Group intends to introduce balanced but significant growth policies.

Figures in millions of euros

Consolidated balance sheet	31/03/00	31/03/01	31/03/02
<b>Net fixed assets</b>	51.3	59.4	96.7
Tangible assets	22.6	29.2	31.3
Intangible assets	28.7	30.2	65.4
<b>Financial assets</b>	5.4	7.6	6.2
<b>Net current assets</b>	10.9	15.1	30.2
Accounts receivable	24.8	57.1	78.1
Inventories	15.6	28.1	51.3
Accounts payable	(32.9)	(72.1)	(94.7)
Other current assets	13.2	16.6	23.8
Other current liabilities	(9.8)	(14.6)	(28.3)
<b>Reserves</b>	(3.3)	(4.2)	(5.4)
<b>Net invested capital</b>	88.9	70.3	121.5
Financed by			
Debt/(cash and cash equivalent)	35.6	38.9	67.1
Equity Shareholders' funds (including minority Shareholders)	23.3	31.4	54.4
	58.9	70.3	121.5
Minority Shareholders' equity	3.5	6.2	14.8

2001/2002  
wholesale revenues breakdown  
by product categories  
in %

- Clothing
- Fabric accessories
- Leather goods and footwear
- Fragrances, eyewear and watches



Net fixed assets as of 31 March 2002 increased by 63% compared with the corresponding previous year figure, from 59.4 to 96.7 million euros. Net current assets amounted to 30.2 million euros, almost double the figure for 2000/2001. Group capital expenditure totalled 48.8 million euros, while net invested capital stood at 121.5 million euros.

At financial level, operating activities produced a positive cash flow of 36.2 million euros. The total net financial requirement (28.2 million euros, against 3.3 million euros in 2000/2001) was generated largely by Group investments in direct distribution in and outside Italy (opening of new own stores) and by a higher working capital requirement (larger stocks as a result of increased turnover). The shortfall between self-financing and the financial requirement was provided with an 18-month syndicated loan, due in June 2003.

Figures in millions of euros

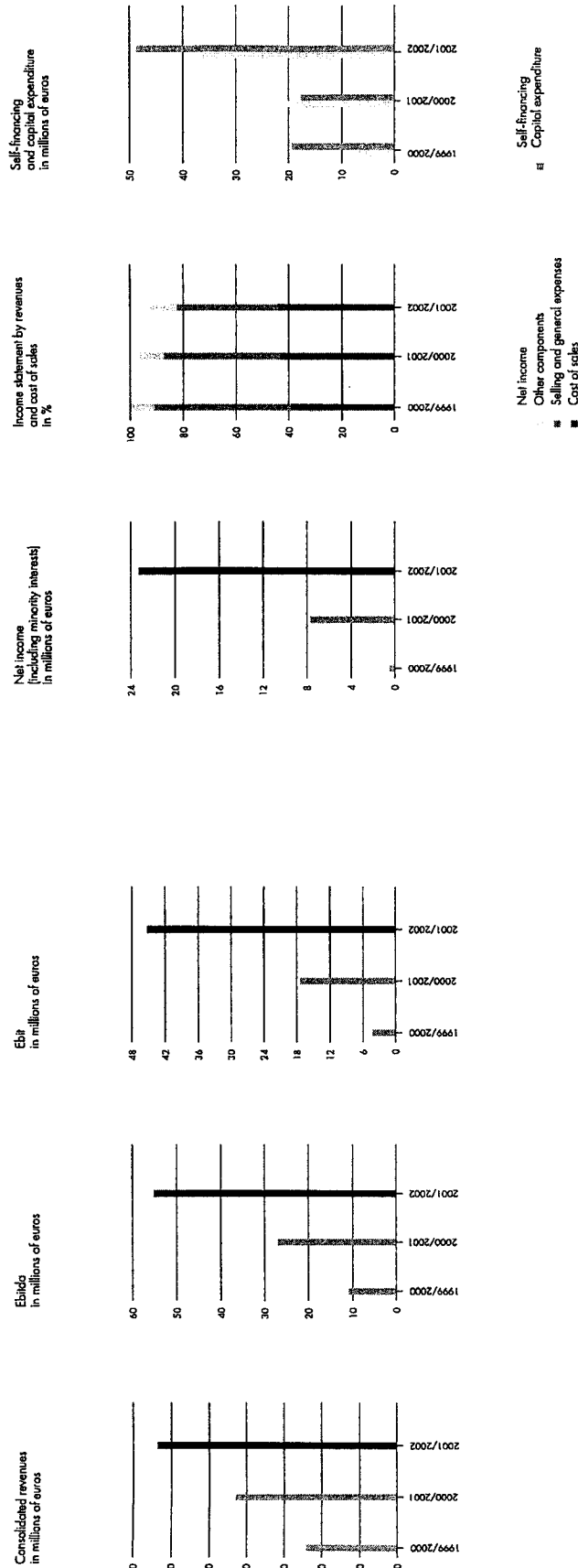
Consolidated cash flow statement	2000/2001	2001/2002
<b>1. Operating activities</b>		
Net income	7.7	23.3
Depreciation and amortisation	9.6	10.1
Changes in reserves (employee indemnities + others)	0.9	2.8
Capital losses/(gains) on sales of fixed assets	2.1	-
<b>Cash flow from operating activities before changes in net current assets and liabilities</b>	20.3	36.2
Change in net current assets	(4.3)	(16.7)
<b>Net cash flow from operating activities</b>	16.0	19.5
<b>2. Investing activities</b>		
Capital expenditure	(17.7)	(48.8)
Long-term investments	(2.3)	1.4
Sale of fixed assets	0.2	-
<b>Cash flow from investing activities</b>	(19.8)	(47.4)
<b>3. Financing activities</b>		
Share-capital increases	-	0.5
Other changes in Shareholders' equity	0.5	(0.8)
<b>Cash flow from financing activities</b>	0.5	(0.3)
<b>Opening net financial position</b>	35.6	38.9
<b>Closing net financial position</b>	38.9	67.1
<b>Total net financial requirement</b>	(3.3)	(28.2)

RESULTS FOR 2001/2002

DOCE, GABBANA

RESULTS FOR 2001/2002

DOCE, GABBANA





100% Cotton

100% Cotton

Percent of total sales

For the year ended December 31, 2002

Product category	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987	1986	1985	1984	1983	1982	1981	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957	1956	1955	1954	1953	1952	1951	1950	1949	1948	1947	1946	1945	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932	1931	1930	1929	1928	1927	1926	1925	1924	1923	1922	1921	1920	1919	1918	1917	1916	1915	1914	1913	1912	1911	1910	1909	1908	1907	1906	1905	1904	1903	1902	1901	1900	1899	1898	1897	1896	1895	1894	1893	1892	1891	1890	1889	1888	1887	1886	1885	1884	1883	1882	1881	1880	1879	1878	1877	1876	1875	1874	1873	1872	1871	1870	1869	1868	1867	1866	1865	1864	1863	1862	1861	1860	1859	1858	1857	1856	1855	1854	1853	1852	1851	1850	1849	1848	1847	1846	1845	1844	1843	1842	1841	1840	1839	1838	1837	1836	1835	1834	1833	1832	1831	1830	1829	1828	1827	1826	1825	1824	1823	1822	1821	1820	1819	1818	1817	1816	1815	1814	1813	1812	1811	1810	1809	1808	1807	1806	1805	1804	1803	1802	1801	1800	1799	1798	1797	1796	1795	1794	1793	1792	1791	1790	1789	1788	1787	1786	1785	1784	1783	1782	1781	1780	1779	1778	1777	1776	1775	1774	1773	1772	1771	1770	1769	1768	1767	1766	1765	1764	1763	1762	1761	1760	1759	1758	1757	1756	1755	1754	1753	1752	1751	1750	1749	1748	1747	1746	1745	1744	1743	1742	1741	1740	1739	1738	1737	1736	1735	1734	1733	1732	1731	1730	1729	1728	1727	1726	1725	1724	1723	1722	1721	1720	1719	1718	1717	1716	1715	1714	1713	1712	1711	1710	1709	1708	1707	1706	1705	1704	1703	1702	1701	1700	1699	1698	1697	1696	1695	1694	1693	1692	1691	1690	1689	1688	1687	1686	1685	1684	1683	1682	1681	1680	1679	1678	1677	1676	1675	1674	1673	1672	1671	1670	1669	1668	1667	1666	1665	1664	1663	1662	1661	1660	1659	1658	1657	1656	1655	1654	1653	1652	1651	1650	1649	1648	1647	1646	1645	1644	1643	1642	1641	1640	1639	1638	1637	1636	1635	1634	1633	1632	1631	1630	1629	1628	1627	1626	1625	1624	1623	1622	1621	1620	1619	1618	1617	1616	1615	1614	1613	1612	1611	1610	1609	1608	1607	1606	1605	1604	1603	1602	1601	1600	1599	1598	1597	1596	1595	1594	1593	1592	1591	1590	1589	1588	1587	1586	1585	1584	1583	1582	1581	1580	1579	1578	1577	1576	1575	1574	1573	1572	1571	1570	1569	1568	1567	1566	1565	1564	1563	1562	1561	1560	1559	1558	1557	1556	1555	1554	1553	1552	1551	1550	1549	1548	1547	1546	1545	1544	1543	1542	1541	1540	1539	1538	1537	1536	1535	1534	1533	1532	1531	1530	1529	1528	1527	1526	1525	1524	1523	1522	1521	1520	1519	1518	1517	1516	1515	1514	1513	1512	1511	1510	1509	1508	1507	1506	1505	1504	1503	1502	1501	1500	1499	1498	1497	1496	1495	1494	1493	1492	1491	1490	1489	1488	1487	1486	1485	1484	1483	1482	1481	1480	1479	1478	1477	1476	1475	1474	1473	1472	1471	1470	1469	1468	1467	1466	1465	1464	1463	1462	1461	1460	1459	1458	1457	1456	1455	1454	1453	1452	1451	1450	1449	1448	1447	1446	1445	1444	1443	1442	1441	1440	1439	1438	1437	1436	1435	1434	1433	1432	1431	1430	1429	1428	1427	1426	1425	1424	1423	1422	1421	1420	1419	1418	1417	1416	1415	1414	1413	1412	1411	1410	1409	1408	1407	1406	1405	1404	1403	1402	1401	1400	1399	1398	1397	1396	1395	1394	1393	1392	1391	1390	1389	1388	1387	1386	1385	1384	1383	1382	1381	1380	1379	1378	1377	1376	1375	1374	1373	1372	1371	1370	1369	1368	1367	1366	1365	1364	1363	1362	1361	1360	1359	1358	1357	1356	1355	1354	1353	1352	1351	1350	1349	1348	1347	1346	1345	1344	1343	1342	1341	1340	1339	1338	1337	1336	1335	1334	1333	1332	1331	1330	1329	1328	1327	1326	1325	1324	1323	1322	1321	1320	1319	1318	1317	1316	1315	1314	1313	1312	1311	1310	1309	1308	1307	1306	1305	1304	1303	1302	1301	1300	1299	1298	1297	1296	1295	1294	1293	1292	1291	1290	1289	1288	1287	1286	1285	1284	1283	1282	1281	1280	1279	1278	1277	1276	1275	1274	1273	1272	1271	1270	1269	1268	1267	1266	1265	1264	1263	1262	1261	1260	1259	1258	1257	1256	1255	1254	1253	1252	1251	1250	1249	1248	1247	1246	1245	1244	1243	1242	1241	1240	1239	1238	1237	1236	1235	1234	1233	1232	1231	1230	1229	1228	1227	1226	1225	1224	1223	1222	1221	1220	1219	1218	1217	1216	1215	1214	1213	1212	1211	1210	1209	1208	1207	1206	1205	1204	1203	1202	1201	1200	1199	1198	1197	1196	1195	1194	1193	1192	1191	1190	1189	1188	1187	1186	1185	1184	1183	1182	1181	1180	1179	1178	1177	1176	1175	1174	1173	1172	1171	1170	1169	1168	1167	1166	1165	1164	1163	1162	1161	1160	1159	1158	1157	1156	1155	1154	1153	1152	1151	1150	1149	1148	1147	1146	1145	1144	1143	1142	1141	1140	1139	1138	1137	1136	1135	1134	1133	1132	1131	1130	1129	1128	1127	1126	1125	1124	1123	1122	1121	1120	1119	1118	1117	1116	1115	1114	1113	1112	1111	1110	1109	1108	1107	1106	1105	1104	1103	1102	1101	1100	1099	1098	1097	1096	1095	1094	1093	1092	1091	1090	1089	1088	1087	1086	1085	1084	1083	1082	1081	1080	1079	1078	1077	1076	1075	1074	1073	1072	1071	1070	1069	1068	1067	1066	1065	1064	1063	1062	1061	1060	1059	1058	1057	1056	1055	1054	1053	1052	1051	1050	1049	1048	1047	1046	1045	1044	1043	1042	1041	1040	1039	1038	1037	1036	1035	1034	1033	1032	1031	1030	1029	1028	1027	1026	1025	1024	1023	1022	1021	1020	1019	1018	1017	1016	1015	1014	1013	1012	1011	1010	1009	1008	1007	1006	1005	1004	1003	1002	1001	1000	999	998	997	996	995	994	993	992	991	990	989	988	987	986	985	984	983	982	981	980	979	978	977	976	975	974	973	972	971	970	969	968	967	966	965	964	963	962	961	960	959	958	957	956	955	954	953	952	951	950	949	948	947	946	945	944	943	942	941	940	939	938	937	936	935	934	933	932	931	930	929	928	927	926	925	924	923	922	921	920	919	918	917	916	915	914	913	912	911	910	909	908	907	906	905	904	903	902	901	900	899	898	897	896	895	894	893	892	891	890	889	888	887	886	885	884	883	882	881	880	879	878	877	876	875	874	873	872	871	870	869	868	867	866	865	864	863	862	861	860	859	858	857	856	855	854	853	852	851	850	849	848	847	846	845	844	843	842	841	840	839	838	837	836	835	834	833	832	831	830	829	828	827	826	825	824	823	822	821	820	819	818	817	816	815	814	813	812	811	810	809	808	807	806	805	804	803	802	801	800	799	798	797	796	795	794	793	792	791	790	789	788	787	786	785	784	783	782	781	780	779	778	777	776	775	774	773	772	771	770	769	768	767	766	765	764	763	762	761	760	759	758	757	756	755	754	753	752	751	750	749	748	747	746	745	744	743	742	741	740	739	738	737	736	735	734	733	732	731	730	729	728	727	726	725	724	723	722	721	720	719	718	717	716	715	714	713	712	711	710	709	708	707	706	705	704	703	702	701	700	699	698	697	696	695	694	693	692	691	690	689	688	687	686	685	684	683	682	681	680	679	678	677	676	675	674	673	672	671	670	669	668	667	666	665	664	663	662	661	660	659	658	657	656	655	654	653	652	651	650	649	648	647	646	645	644	643	642	641	640	639	638	637	636	635	634	633	632	631	630	629	628	627	626	625	624	623	622	621	620	619	618</
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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

GADO S.R.L.	:	
	:	Cancellation No. 92047433
Petitioner,	:	
	:	
-against-	:	
	:	
JAY-Y ENTERPRISE CO., INC.,	:	
	:	
Respondent.	:	

**PETITIONER'S TESTIMONY – VANNUCCHI DEPOSITION EXHIBIT B  
FILED UNDER SEAL**

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IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

GADO S.R.L.

Petitioner,

-against-

JAY-Y ENTERPRISE CO., INC.,

Respondent.

:  
: Cancellation No. 92047433  
:  
:  
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**PETITIONER'S TESTIMONY – VANNUCCHI DEPOSITION EXHIBIT C**

LICENCEE'S CALENDAR YEAR 2013

Vannucchi Deposition Exhibits Page 032

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

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**PETITIONER'S TESTIMONY – VANNUCCHI DEPOSITION EXHIBIT D**



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5 Group Values

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VISION E MISSION

*The synergy between two different but complementary designers,  
the emblematic image of a simple black dress, worn with animal-print lingerie;  
and contrast becomes a style.*

**Vision**

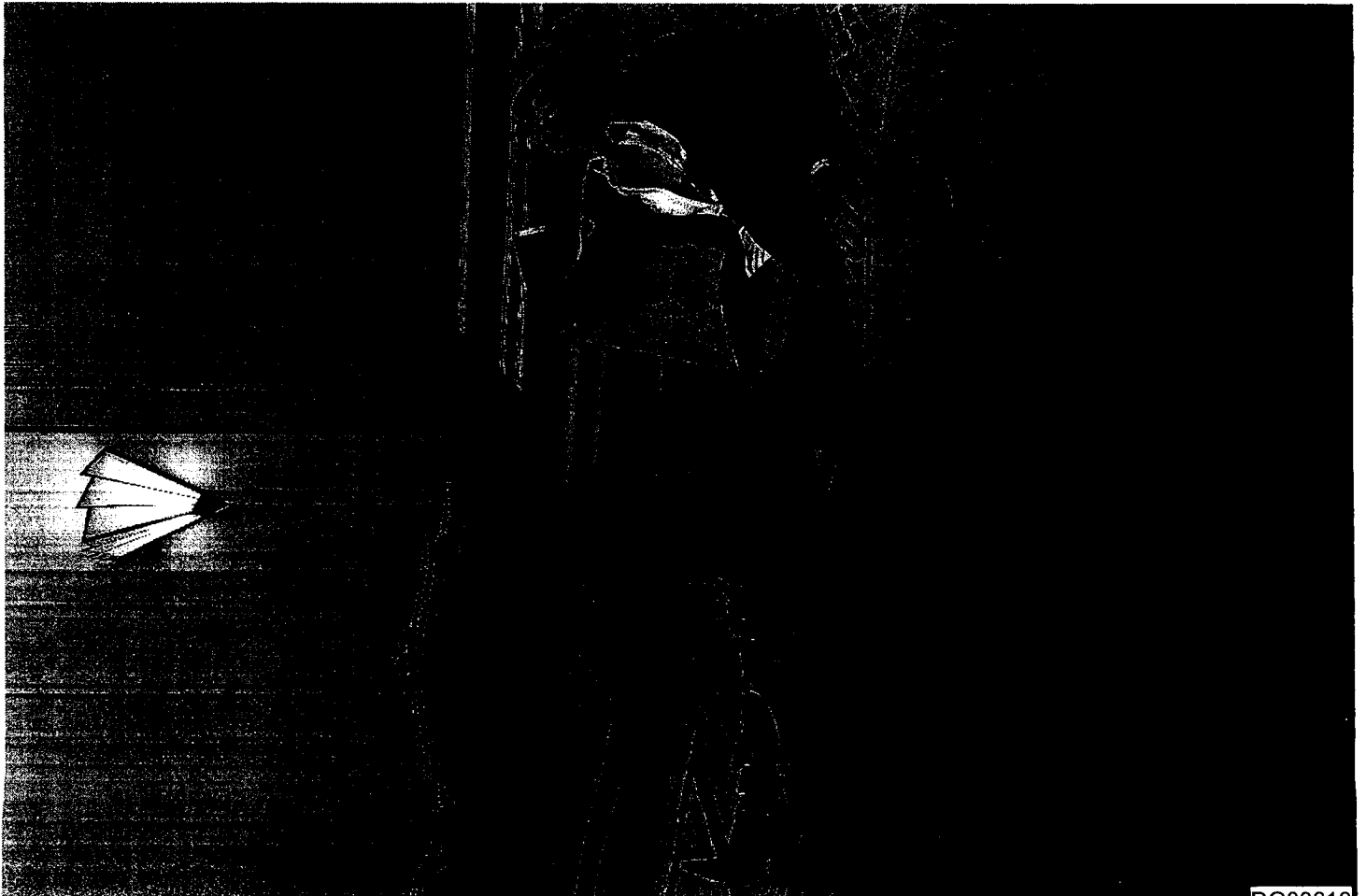
Contrast is an endless source of  
stimulus and inspiration.  
Contrast generates harmony.

**Mission**

To create fashion that reconciles

**sacred&profane  
tradition&transgression  
freedom&discipline  
luxury&streetwear  
black&white**

A goal that requires two minds.



## GROUP VALUES

### Excellence

Excellence is a choice.  
Only when it is certain that  
it can attain excellence does  
Dolce & Gabbana decide to undertake  
an activity, setting in motion  
a series of actions, large and small,  
all aimed at achieving the desired result.

### Independence

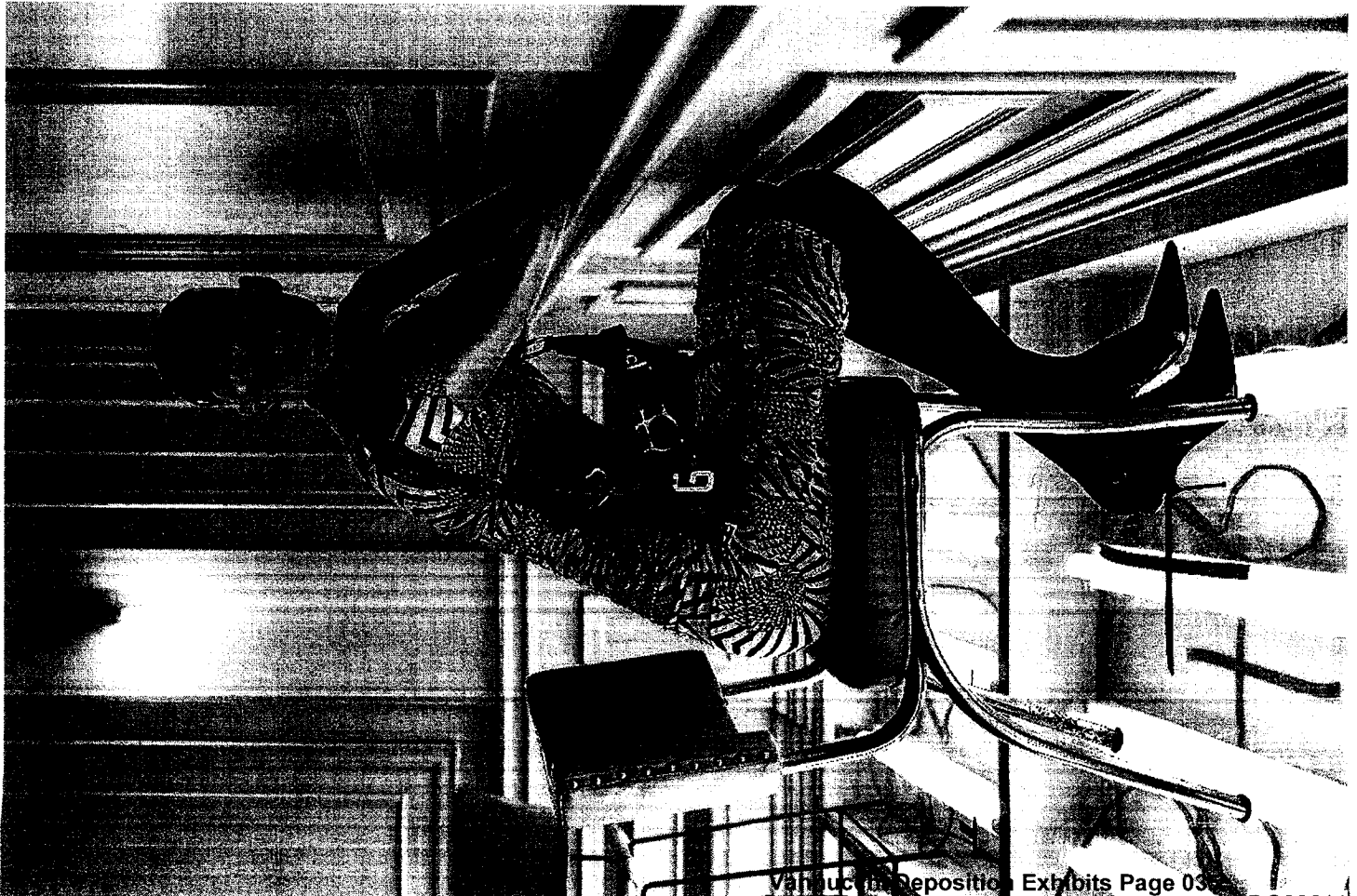
Independence is essential to freedom:  
the freedom to create purely on the  
basis of inspiration, the freedom  
to run the company and live the  
corporate experience according  
to one's personal beliefs.

### Focus on the individual

The focus of attention at the Dolce &  
Gabbana group is the individual with  
his or her particular talents, the person  
with his or her gifts and relational skills.  
Personnel management is geared to  
maximum respect for and optimisation  
of individual potential. Dolce &  
Gabbana regards every employee as a  
valuable resource in which to invest in  
order to grow together.

### Corporate responsibility

Corporate responsibility is the ethical  
foundation for all of the Group's  
dealings with the external community.  
Relations with customers, suppliers  
and partners are conducted with the  
utmost propriety; at the same time,  
Dolce & Gabbana's intention is to build  
a solid, dynamic enterprise capable  
of generating value and distributing the  
benefits across a broad social spectrum.



COMPETITIVE ADVANTAGES

**1** Pure and applied creativity

All Dolce & Gabbana creations are a combination of two different forces. Pure creativity, the moment in which the idea is conceived, and applied creativity, the transformation of the original idea into a real object, a wearable garment.

**2** Sartorial roots

The Group's sartorial origins underlie its corporate culture and procedures. They are reflected in the minute attention to form, details and finish, with the result that Dolce & Gabbana is the most tailored offer in the ready-to-wear industry.

**3** Contemporary brands and a feel for the market

Dolce & Gabbana is in close touch with the people who choose its brands and with contemporary culture. The designers draw their inspiration from the endless stimuli provided by today's up-market high-street trends and metropolitan lifestyle.

**4** Integration and control of the entire value chain

The Group co-ordinates the entire value chain, from creation to sale: it handles each stage in the production process for clothing, leather accessories and footwear, and manages all the proprietary mono-brand stores.

**5** Corporate DNA and organisational culture

Dolce & Gabbana's strength lies in the perfect complementarity between its designers-leaders, the management team and the rest of the organisational structure. The Group is united in working towards its goals, an entity in which every individual knows they have an important part to play in a broader, longer-term project.



Gado S.a.r.l. v. 28

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# Corporate profile

The Dolce & Gabbana brand was created in 1985 and is now one of the top international groups in the clothing and luxury goods sector. At 31 March 2003, end of fiscal year, Dolce & Gabbana counted a total workforce of 1,493 people, two production facilities and 59 own stores, as well as long-standing relations with leading shops and department stores in more than 80 countries around the world. Through its two brands - Dolce & Gabbana and D&G Dolce & Gabbana - the Group creates, produces and distributes clothing, knitwear, leather goods, footwear and accessories for the top end of the market. It has direct control over the entire value chain for the Dolce & Gabbana brand.

The Group also has exclusive rights to Dolce & Gabbana and D&G Dolce & Gabbana fragrances and eyewear and D&G Dolce & Gabbana clothing and wristwatches. These merchandise ranges are produced and distributed under licence.

At the end of the last fiscal year, consolidated revenues grew by 40.5% to 475 million euros. In the same period, EBIT grew by 59.6% to 72.1 million euros, while net income rose 78.2% from 23.8 to 41.4 million euros.

The two founders, Domenico Dolce and Stefano Gabbana, have always been the creative source of the Dolce & Gabbana and D&G Dolce & Gabbana style, and the leaders behind the Group's intensive growth strategy.

Figures in millions of euros

	31/03/01	31/03/02	31/03/03
Wholesale revenues	413	552.6	753.9
Consolidated revenues	214.3	317.6	475.0
Cost of sales	93.3	140.5	204.6
EBITDA	27.0	55.2	89.4
EBIT	17.4	45.2	72.1
Net income	7.7	23.3	41.4
Net current assets	15.1	30.2	45.3
Net invested capital	70.3	121.5	183.8
Net debt	38.9	67.1	91.9
Shareholders' equity	31.4	54.4	91.9

Figures in %

ROS (Return on sales)	8.1	14.2	13.2
ROCE (Return on capital employed)	13.1	22.0	24.3
ROE (Return on equity)	28.1	54.2	56.7
Personnel	683	912	1493
Own stores	10	16	59

The organizational chart illustrates the corporate structure of the Dolce & Gabbana Group. At the top is **DOLCE & GABBANA S.p.A.**, which holds 100% ownership of **DOLCE & GABBANA USA Inc.** and 31% of **DOLCE & GABBANA Industrie S.p.A.**. **DOLCE & GABBANA USA Inc.** is the parent of a series of subsidiaries: **DOLCE & GABBANA Japan K.K.** (100%), **DG USA Inc.** (100%), **D&G Stores America Inc.** (100%), **DG Outlet America Inc.** (100%), **DOLCE & GABBANA UK Ltd** (100%), **DOLCE & GABBANA France Surl** (99.1%), **DOLCE & GABBANA S.A.** (100%), and **DOLCE & GABBANA Reemond S. V.** (100%). **DOLCE & GABBANA Industrie S.p.A.** holds 80% of **Strova S.r.l.** and 100% of **DGS S.p.A.**. **DGS S.p.A.** is the parent of **DOLCE & GABBANA Cosmétique Participations S.A.** (100%).

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graph TD
    DGS_SpA[DGS S.p.A. 100%] --> DG_USA_Inc[DOLCE & GABBANA USA Inc. 100%]
    DG_USA_Inc --> DG_Japan_KK[DOLCE & GABBANA Japan K.K. 100%]
    DG_USA_Inc --> DG_USA_Inc_100[DG USA Inc. 100%]
    DG_USA_Inc --> DG_Outlet_America_Inc[DG Outlet America Inc. 100%]
    DG_USA_Inc --> DG_Stores_America_Inc[D&G Stores America Inc. 100%]
    DG_USA_Inc --> DG_UK_Ltd[DOLCE & GABBANA UK Ltd 100%]
    DG_USA_Inc --> DG_France_Surl[DOLCE & GABBANA France Surl 99.1%]
    DG_USA_Inc --> DG_SA[DOLCE & GABBANA S.A. 100%]
    DG_USA_Inc --> DG_Reemond_SV[DOLCE & GABBANA Reemond S. V. 100%]
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    DGI_SpA --> DGS_SpA
    DGS_SpA --> DG_Cosmetique_SA[DOLCE & GABBANA Cosmétique Participations S.A. 100%]
  
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**Gado S.a.r.l. v. Jay-Y Enterprises Co., Inc.**  
**Cancellation No. 92047433**  
**Petitioner's Testimony**

### History

**1982**  
 Designers Domenico Dolce and Stefano Gabbana open their first studio.

**1985**  
 Debut of the Dolce & Gabbana brand with the designers' first show at Milano Collezioni, in the New Talents section.

**1986**  
 Presentation of the first collection produced in-house and the first "Real Women" fashion show.

**1988**  
 Ready-to-wear production agreement with Dolce Saverio S.p.A., the clothing firm owned by Domenico Dolce's family in Legnano, near Milan.

**1990**  
 First Dolce & Gabbana men's wear collection, 1990/1991 Autumn/Winter.

**1992**  
 Opening of the first New York showroom at 532 Broadway.

**1994**  
 Introduction of the new D&G Dolce & Gabbana young people's collection, produced and distributed by the Iermin-based Itierre company.

**1996**  
 Agreement with Japan's Masaki Shoji group to open retail outlets and distribute the Dolce & Gabbana and D&G Dolce & Gabbana lines in Japan.

**1998**  
 Opening of the new offices and showroom in New York at 660 Madison Avenue.

**1999**  
 Dolce & Gabbana S.p.A. launches an industrial verticalisation strategy with the acquisition of 51% of Dolce Saverio S.p.A. (later re-named Dolce & Gabbana Industria S.p.A.), the Group's main clothing licensee, and 100% of DCS, the company responsible for distribution through the Italian over-store network.

Function re-organisation at Dolce & Gabbana Industria, with the creation of the following divisions: Main Line Clothing, Knitwear, Fabric Accessories.

**2000**  
 Starting with the 2000/2001 Autumn/Winter season, Dolce & Gabbana begins in-house production and distribution of knitwear, underwear, beachwear, scarves and ties, previously run under licence.

Dolce & Gabbana Industria sets up a new Leather Accessories & Footwear division in Incisa Valdarno (near Florence), to handle all prototyping and production work for the men's and women's footwear and leather goods ranges.

**2001**  
 Men's and women's footwear and leather goods operations, previously run under licence, are transferred in-house.

**2002**  
 Opening of the new showroom in Tokyo and presentation of the new Japanese division, Dolce & Gabbana Japan K.K., established in August 2001; the division is to handle distribution of the Dolce & Gabbana and D&G Dolce & Gabbana ranges to own boutiques and in-store shops.

Beginning with the 2002/2003 Autumn/Winter season, leatherwear operations, previously run under licence, are transferred in-house.

**2003**  
 The new Group head office at Via Goldoni 10, Milan, becomes operational.

Opening of a new venue for men at Corso Venezia 15, Milan. In addition to the full range of Dolce & Gabbana men's collections, the store includes a beauty-care centre named "Grooming", a Sicilian style barber's shop and a bar, run in co-operation with Martini.

Opening in Milan, at Via della Spiga 26/b of a boutique exclusively for Dolce & Gabbana women's accessories: bags, shoes, eyewear, belts and leather goods.

### Brands

The two Group brands, Dolce & Gabbana and D&G Dolce & Gabbana, and the collections on which they are used, are direct expressions of the creativity of Domenico Dolce and Stefano Gabbana. Supported by a team of stylists, the two designers choose the themes for the collections, produce the sketches and follow each step in the creative process through to production start-up. The two different sources of brand inspiration translate into two distinctive stylistic approaches, united by the ability to match creative flair to the needs of the customers who choose these clothes. With the result that a perfect balance between style and attention to market requirements has always been a distinguishing characteristic of Dolce & Gabbana and D&G Dolce & Gabbana collections.

### Dolce & Gabbana

Dolce & Gabbana is the Dream: a luxury brand that owes its incomparable allure to high sartorial content and stylistic originality. Dolce & Gabbana is always up to the minute, evolving but never changing radically. An unmistakable, timeless style: an unconventional luxury, which continues to innovate season after season while retaining the strong Mediterranean flavour of its origins. A brand whose essence lies in its contrasting yet complementary features.

Dolce & Gabbana competes with the traditional luxury labels for leadership of the top end of the market, offering inimitable creations for a sophisticated, demanding elite: clothing, leather and fabric accessories, footwear, underwear, beachwear, fragrances and eyewear.

The Dolce & Gabbana man and woman are outgoing individualists who know how to get the most out of life, love fashion and see clothes as an expression of their personality and lifestyle.

### D&G Dolce & Gabbana

D&G Dolce & Gabbana is Irony: ground-breaking style inspired by street-style, contemporary music and everything that is now, to create the first luxury line totally dedicated to young people.

Free from the constraints of pre-conceived notions and formats, D&G Dolce & Gabbana fashion is the ultimate mirror of a wholly metropolitan culture in an unconventional, informal re-working.

Although D&G Dolce & Gabbana is particularly popular among young people, it appeals to innovators and trend-setters irrespective of age: people who enjoy freedom, irony and irreverence in fashion.

This brand comprises clothing, leather accessories, footwear, underwear, beachwear, eyewear, fragrances and wristwatches. The D&G Dolce & Gabbana label is also used on the junior clothing and footwear ranges.

THE GROUP, AN INTEGRATED, INDEPENDENT ORGANISATION

DOCE, GABBANA

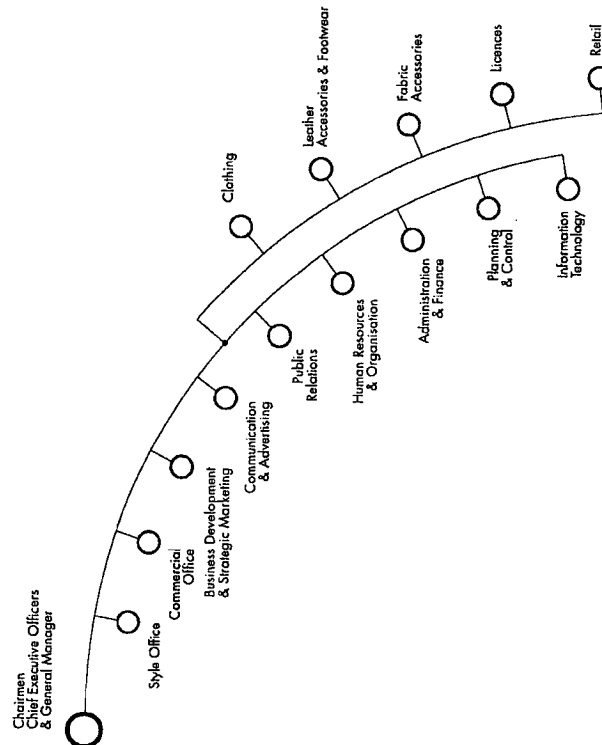
THE GROUP, AN INTEGRATED, INDEPENDENT ORGANISATION

DOCE, GABBANA

#### Business divisions

The Group is organised into five business divisions, supported by a series of corporate functions:

- Clothing
- Leather Accessories & Footwear
- Fabric Accessories
- Licences
- Retail



#### Clothing

The clothing division is responsible for production, distribution and marketing for the following

- Dolce & Gabbana lines:
- fabric clothing
- leatherwear
- knitwear

The division was created as a result of the industrial verticalisation strategy launched in 1999 when the Group acquired control of its main clothing licensee, Dolce Soverio S.p.A., later re-named Dolce & Gabbana Industria S.p.A., and transferred its licences in-house.

The strategy continues today, through on-going action to strengthen the division's production units. Distribution is handled by an internal unit which operates through the Group showrooms in Milan, New York and Tokyo.

#### Leather Accessories & Footwear

This division co-ordinates production and marketing of:

- leather accessories
- footwear

for the Dolce & Gabbana label. The decision to produce leather accessories and footwear in-house, as a result of which the Group set up the Incisa Valdarno factory, matches the production strategies of the clothing division. Distribution is managed by the clothing distribution unit.

#### Fabric Accessories

This division is responsible for the production of:

- Dolce & Gabbana ties and scarves
- Dolce & Gabbana and D&G
- Dolce & Gabbana men's and women's underwear and beachwear
- the D&G Dolce & Gabbana Junior clothing range.

In this area too, the strategic focus is on direct control of production and marketing. Distribution, handled by a network of agencies and distributors, is co-ordinated by head office.

The division also manages the D&G Dolce & Gabbana clothing, footwear and leather goods licences and the D&G Dolce & Gabbana Junior footwear licence.

#### Licences

This division co-ordinates and manages the following lines:

- Dolce & Gabbana eyewear and fragrances
- D&G Dolce & Gabbana eyewear, fragrances and wristwatches.

Dolce & Gabbana continues to operate these merchandise ranges under licensing agreements with long-standing partners who possess the necessary specialist production and distribution knowhow.

#### Retail

The decision to have a direct presence on core markets and extend control over the entire value chain led to the formation of this division, which co-ordinates the development of the retail channel and manages the worldwide network of Dolce & Gabbana and D&G Dolce & Gabbana stores.

DOICE, GABBANA

THE GROUP, AN INTEGRATED, INDEPENDENT ORGANISATION

#### Production

Through Dolce & Gabbana Industria S.p.A., the Group controls each stage in the production process for clothing (Legnano factory) and leather accessories and footwear (Incisa Valdarno factory). Its upstream integration strategy coupled with downstream integration in distribution ensures direct control over the entire value chain, from creation to sale. This is essential to enable the Dolce & Gabbana group to realise the full potential of all its merchandise: lines and ranges and, therefore, to maintain market leadership.

For this purpose, production and distribution of all the lines that were previously handled under licence have gradually been transferred in-house, with the exception of eyewear, fragrances and wristwatches.

Production and, in part, distribution of D&G Dolce & Gabbana clothing, footwear and leatherwear continue to be managed under licence, for two main reasons. First, the decision to focus the Group's production and distribution resources on the Dolce & Gabbana brand; second, the presence of a long-term licensing partner for the D&G Dolce & Gabbana brand with whom the Group enjoys a close working relationship based on a common approach to strategy and business management.

For the D&G Dolce & Gabbana Junior line, clothing is produced at Legnano, while footwear is produced under licence by a specialist manufacturer.

#### The production facilities:

**Legnano and Incisa Valdarno**  
Legnano handles every stage in the design process, from the sketch to product industrialisation, including fabric cutting. Garments are made up externally by a select group of specialist laboratories, which meet the "made in Italy" standard geared to superior production quality, which the Group guarantees through a stringent control process.

In addition to production of prototypes and samples, the Incisa Valdarno factory is responsible for product engineering and industrialisation. It also co-ordinates production by specialist subcontractors and performs quality controls.

The Group's production strategies aim to maximise efficiency in production planning and management and to optimise customer service.

At 31 March 2003, the Legnano factory had 377 employees, while the Incisa Valdarno factory had 112 employees.

THE GROUP, AN INTEGRATED, INDEPENDENT ORGANISATION

DOLOCE, GABBANA

THE GROUP, AN INTEGRATED, INDEPENDENT ORGANISATION

DOLOCE, GABBANA

### Distribution

The Dolce & Gabbana group uses a number of distribution channels, whose intrinsic differences require a variety of management models. The distribution mix is geared to enhancing channel synergies, while ensuring that specific market and product characteristics are maintained.

Distribution is handled at two levels:

- "wholesale", through independent multi-brand shops, department stores and mono-brand shops run on a franchising basis
- "retail", through the Group's flagship stores and mono-brand boutiques, in-store shops and outlets, all of which are managed directly by Dolce & Gabbana.

The international expansion of the Dolce & Gabbana and D&G Dolce & Gabbana brands is supported by Dolce & Gabbana USA Inc., headquartered in New York, which is based in Tokyo. The Milan, New York and Tokyo showrooms follow independent clients and plan merchandising for the Group's own stores.

### Licences

Dolce & Gabbana retains strategic planning control for products handled under licence. This ensures that while the specific needs of the individual sectors are catered for, the approach adopted in each area is consistent with the qualitative positioning of the Group brand and the stylistic originality that has always been their key characteristic. The current licensing agreements are based on solid long-term partnerships with leading companies in the areas concerned.

### Clothing

The D&G Dolce & Gabbana clothing, leather accessories and footwear ranges are produced by Itierre S.p.A., a company in the IT Holding Group, which is also responsible for worldwide brand distribution with the exception of the USA and Japan, where distribution is handled directly by Group subsidiaries. The licensing agreement, originally signed in 1993 and renewed in 2002, takes a partnership approach, under which Dolce & Gabbana is responsible for Style, Brand Management, Public Relations and Press Office operations.

Group own stores at 31/03/03	Italy	Europe	USA	Japan	Total
Dolce & Gabbana	13	3	4	7	27
D&G Dolce & Gabbana	5	0	6	11	22
<b>Total</b>	<b>18</b>	<b>3</b>	<b>10</b>	<b>18</b>	<b>49</b>
<b>Outlets</b>	<b>3</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>6</b>

### Watches

The wristwatches in the D&G Dolce & Gabbana range have been produced and distributed by Binda S.p.A. since 1999. In this area too, the Group has sole responsibility for creativity, is involved in the design of packaging and retail materials, approves price lists and all marketing activities. The licensee's activities relating to products, distribution, image and promotion are closely based on and monitored in accordance with Dolce & Gabbana guidelines.

The Dolce & Gabbana corporate unit set up to co-ordinate contract management also handles a wide range of activities including product planning and development, marketing and communication, sales and retail.

The ultimate goal is to consolidate the positioning of the D&G Dolce & Gabbana brand as the first luxury line dedicated to young people.

### Fragrances

Dolce & Gabbana and D&G Dolce & Gabbana fragrances have been produced and distributed worldwide since 1990 by Eurlitalis S.r.l.

Dolce & Gabbana's creative project and strategy guidelines are followed closely by the licensee in submitting new fragrances and drafting sales, marketing and communication policies.

Consistently with its brand and product strategies, the Group assesses proposals, selects fragrances, packaging and communication materials, approves support operations and supervises implementation. Group strategy in this area is to create timeless fragrances that will establish a following independently of fashions and seasonal trends.

### Eyewear

The production and distribution licence for Dolce & Gabbana and D&G Dolce & Gabbana eyewear has been held since 1999 by Marcolin S.p.A., in which the Group owns a 5% shareholding. Dolce & Gabbana handles creativity and product development, and co-ordinates and controls the licensee's image, promotion, distribution and production operations. This involves advertising and promotional design, media selection and budget management. PR operations are organised by the licensee in close co-operation with Dolce & Gabbana, which has final approval of all initiatives.

# INSERIRE OTTAVO (ESECUTIVO A PARTE)



## Interview with Domenico Dolce e Stefano Gabbana

*The Dolce & Gabbana group reported impressive growth for the financial year to 31 March 2003. What in your opinion were the key drivers?*

**DD** It's difficult for us to say, you see things from a different perspective when you're on the inside and it's always very difficult to talk about oneself ...

**SG** And sometimes if we didn't have the numbers to bring us back into the real world, we wouldn't even realise how much we really have grown. It's pretty amazing to think that today more than 1500 people work with us around the world.

Getting back to this year's results, well, they depend on a whole series of reasons, all closely related, and it might be reductive to single out just one or two. What we can say for a fact is that people like what we do. Our clients love wearing our clothes and feeling special. Our Style and Product have a highly distinctive identity and evidently the items we offer are what the market wants.

**DD** Another very important aspect is where and how the client finds our products. Our stores are based on a set of highly specific design criteria. They have to be the ultimate expression of the Dolce & Gabbana universe and they also have to satisfy the client's unconscious desires, which are all to do with dreams and emotions. Above all, the stores are an experience. If you visit one of the new locations opened over the last twelve months you'll see what I mean.

*Your style is based on a unique form of creativity. What is creativity for Dolce & Gabbana?*

**DD** Creativity is a complex, multi-faceted concept. There is pure creativity, which is the natural inspiration, and there is applied creativity, the transformation process that turns the inspiration into a real product.

Our collections originate from flashes of pure creativity, revelations when we see the garments in our mind's eye, when we sense the mood, the themes, the spirit of the collection. Then we and our staff have to capture that revelation, working tirelessly to turn it into a product that is applied creativity.

**SG**

The same applies to other areas, like the design of our store layouts, the creation of a fragrance or the concepts used in an advertising shoot. For example, our campaigns are based on the same themes as the collections; then we discuss them with the photographer and our staff and they evolve into images that project exactly what we feel and what we want to say.

*Where do your feelings come from?*

**DD** What is the source for the inspiration of Domenico Dolce and Stefano Gabbana?

**SG**

The starting point comes from us, our lives, our surroundings, the things we like. Fashion has to connect with the real world.



The secret is to be in tune with clients, to experience and want what they experience and want. What the clients work for need is novelty and emotion, and this is what we try to offer starting from our understanding of novelty and emotion. We are searching all the time, continually exploring reality through our series. At the movies or exhibitions, walking in the streets or shops, meeting people, watching a film, trying a new restaurant, reading a book, listening to music: we are receptive to everything and provide our own interpretation through our creativity.

**DD**

This is another reason why our work is our life: every hour of the day, ideas, things and people attract our attention and rouse emotions. We absorb these emotions and then bring them out when we express ourselves in Dolce & Gabbana or the world in D&G Dolce & Gabbana. The collections are different and intended for different people, but both of them aim to create an emotional response in the people who enjoy our products.

**Dolce & Gabbana and D&G**

*Dolce & Gabbana in a separate world with the same creative scene: how do you reconcile the two brands?*

**DD**

Dolce & Gabbana is a style and a style lasts forever. Dolce & Gabbana closely reflects our inner world. The things we experience are processed and filtered through our cultural roots and our most deeply held values and feelings.



So the consciously recurring Sicilian theme is inevitable. For us, the distinguishing elements inspired by Sicily – the colour black, posters, the gazebos, the *capote* (typical Sicilian men's cape of f) – stand for sensuality and elegance, a mixture of the austere and the baroque – the contrasting elements that are the hallmark of our fashion.

**SG**

D&G Dolce & Gabbana on the other hand is our view of the young person's world, what we see around us taken to extremes through our imagination.

The research for this brand is just as frenetic, but the focus is on the mood on the street. London has always been our reference here, with its blend of irreverence, transgression, mix and match. D&G Dolce & Gabbana is an attitude, a way of relating to the world and so it is bound to change and evolve as contemporary trends change.

**DD**

The two brands come from the same creative source – us – which gives them their distinctive, ironic touch. We like to be outrageous and not take ourselves too seriously, like the people who wear our clothes. Everything we do is intended for men and women with a free, independent personality, who want to be themselves, without trying to please or to shock at all costs.

*This year for its anniversary new initiatives at Dolce & Gabbana must notably be men's flagships in Milan.*

**DD**

There are not really new initiatives, but projects that have reached maturity after months of work and planning. They are the result of constant ferment, our continuous striving towards the things we like and want to do. We are full of ideas and would like to realize them all, then we sit down with our managers and assess all our projects carefully and only the ones that provide real benefit for the Group are given the go-ahead. Otherwise we would not have achieved the results we have.

**SG**

The idea behind the Dolce & Gabbana men's flagship was to create a temple celebrating the rites of the male world, and to meet the need to give greater visibility to our creations for men. The male universe is an increasingly important part of our business, and receives the same dedication and enthusiasm as women's one. Although the Dolce & Gabbana men's collection was introduced much later than the women's ranges, it already accounts for a very significant proportion of Group revenue.



**DD**

For us, designing the men's collections is like finding a companion for the woman of our dreams, an ideal companion: the Marcellino Marazziti character in *La Jole-ite*. Our man is sensual, playful, theatrical, above all he wants to please, even more than a woman. So we have given him the means to do so with fashion and everything we offer in the flagship store on Corso Venezia. We are very proud of this project: it combines fashion with the things that appeal to male vanity: a Sicilian barber's shop, which uses all the old rituals, a beauty shop offering all the top treatments, and a bar run in co-operation with Martin, where he can relax with a drink in a quiet, modern setting.

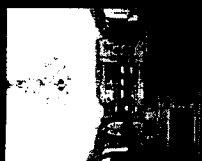
**SG**

It's no coincidence that modern men are rediscovering the pleasures of a slower pace, relaxation, a more leisurely routine... the opposite to women, who are always on the move and hunting around for something new, sometimes in an almost schizophrenic manner.

The differences between men and women have never been as great as they are today.

**DD**

We are strongly aware of this difference and cater for it in all our projects. For instance, last season we decided to use several different campaigns for the same women's collection: the modern woman is so dynamic that she gets tired of seeing the same campaign for six months, so we gave her three... each one quite different to the others, but all of them are unmistakably ours.



*This year you also introduced the Vintage collection and opened the massive boutique...*

**SG** The Accessories project is similar to the Meis project: we have invested heavily in it and made every effort to put the collection on a par with the ready-to-wear collection in terms of importance and comprehensiveness. We decided to open the boutique at Via della Spiga 26 because we felt the time had come for the accessories collection to have a showcase of its own. We are convinced this is the right move and we intend to open boutiques in other countries too.

The story behind the Vintage shop is quite different: it was developed more for our friends and long-standing clients rather than for business reasons. Very often people would ask us for the very first things we made: the guipures with blue stones, the *offit* with Sicilian decorations (typical Sicilian straw bags and), or our first pinstripes... so we decided to set up a sort of ideal archive of our past creations and bring back our classic pieces on a regular basis. The Vintage collection is also an opportunity for us to rediscover ourselves.

**DD** All our investments in direct distribution in the last few years are based on the same philosophy: the boutique is the meaning place of choice for us and our clients and as such merits abundant financial and creative resources. Placing our collections in a venue designed as part of the same creative project heightens their expressive impact and enhances their stylistic personality.

Our boutiques convey the appropriate image for our collections and give the correct emphasis to special projects like the Vintage label or to collections like our accessories, which are complementary to the main lines but stylistically just as significant.

*Creativity and new developments have also been extended to communication.*

*How did the advertising campaign originate?*

**SG** As we said, the campaigns are based on the same creative spirit as the collections, which is a sort of guiding thread linking the creation of the collections, the fashion show that presents the collection and the related advertising campaign. All these elements are inspired by the same concept, which is gradually molded into a variety of forms: the garment, the fashion show and the campaign presentation. These three moments are vitally important and we handle them personally, devoting a huge amount of energy and expectations, because it is during these transitions that our ideas emerge and take shape. It is important for us that our work is understood and appreciated by our clients by our many friends in the international star system and by the public.



**DD** We realize that if something went wrong in communications with the public, our work with our staff on the collections would be in vain. It would be like working for ourselves; you may think you've done your best and worked well but it is only for you, no-one can get any benefit from it because no-one understands it. Whereas one of our priorities in our work is to transmit something to other people.

**SG** This is what the campaigns do, they communicate the ideas of our world and provide emotion for the men and women who wear our creations.

The campaign also has to express the spirit of our collections, which is not a simple matter given the wealth and variety of material.

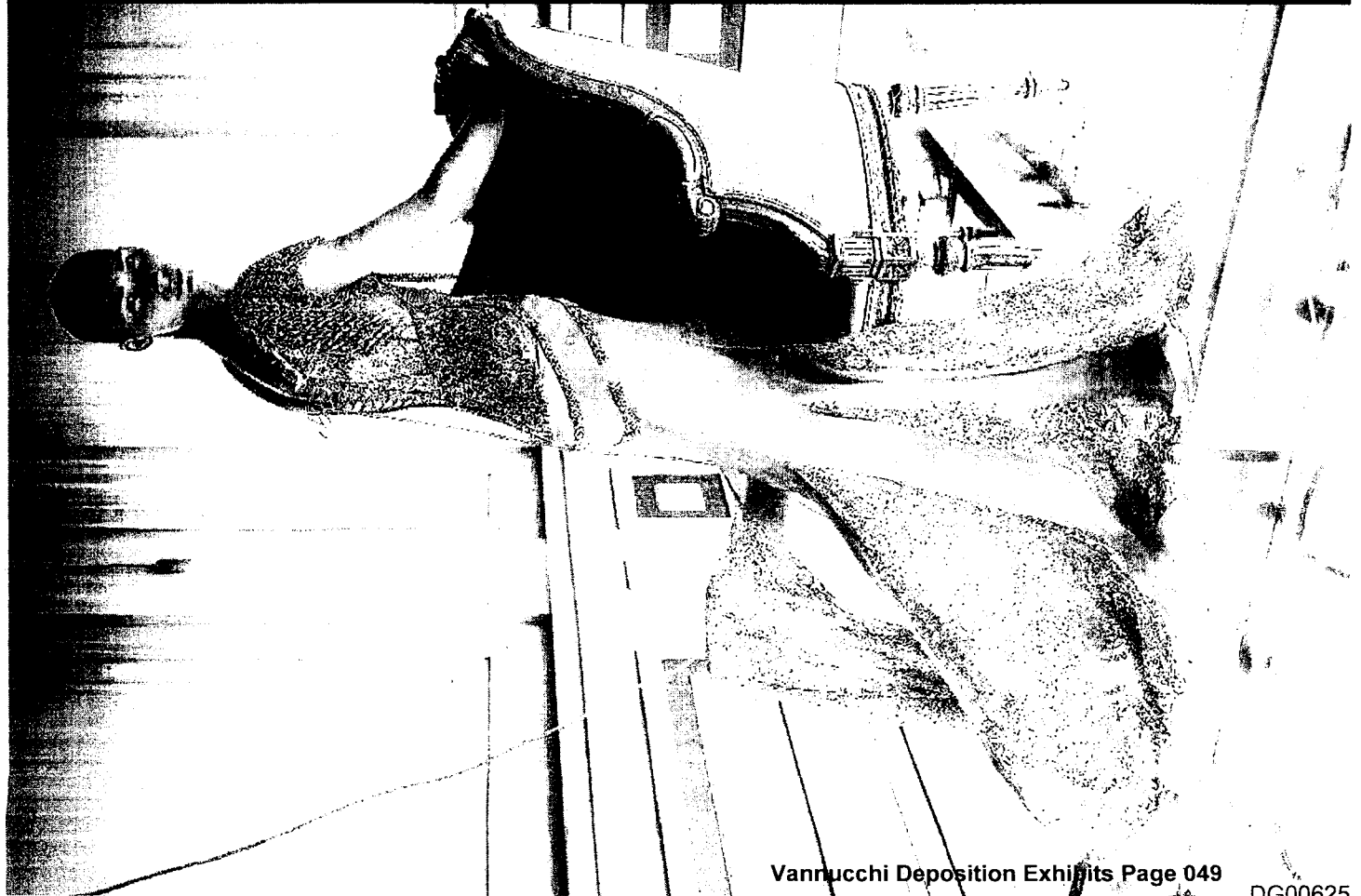
This is why we decided to use several different campaign concepts for last season's Dolce & Gabbana Woman's collection, and give equal emphasis to all its different themes: classic, techno and romantic.

*What does the film look like for Domenico Dolce and Stefano Gabbana?*

**SG** Just like our past and our present, based on the things we love, a passionate devotion to our work and a host of new projects to be developed with enthusiasm and care. Ours is a story of harmonious growth: we've had our difficulties but on the whole our progress has been balanced.



Illustration:  
Dolce & Gabbana Women's Fashion  
Via della Spiga 2, Milan  
Dolce & Gabbana Women's Boutique  
Calle Venezia, 15, Milan



### The Style Office

The creative process is a centralized activity supervised directly by Domenico Dolce and Stefano Gabbana who, as the heads of the Style Office, design all the collections for both labels. The Office and its relations with the corporate functions aim at achieving an optimal balance between stylistic freedom and market considerations, based on the belief that the success of the Group's creative work depends on many other factors, including the functionality and usability of its clothes. The Dolce & Gabbana collection creation and development process, therefore, devotes close attention to market factors, assessing all the elements that may affect the clients' purchase decisions.

### Organisation

The Style Office is staffed by about 50 people, subdivided into two teams, one for Dolce & Gabbana and one for D&G Dolce & Gabbana, which are subdivided in turn by collection and merchandise category.

To ensure the selected peripheral surroundings conducive to a free creative flow, the Style Office operates from a separate location, where it is undisturbed by the other corporate functions and, in some respects, shielded from business dynamics.

The Style Office has a core group of employees who have worked with Dolce & Gabbana for many years. Every year, they are joined by young designers from the world's premier fashion design schools.

This harmonious environment provides Domenico Dolce and Stefano Gabbana with the ideal setting to share their passionate enthusiasm for their work with their staff.

The Style Office teams assist the two designers at every stage in the creation and development of the collections, from the initial sketches to production start-up.

The multi-phase process requires a fair amount of time. It begins with selection of the collection themes and gradually moves through to production of the prototypes. Once the prototypes have been tried, they are checked and re-checked detail by detail, in line with the best bespoke tailoring practice, to ensure a perfect balance between style and wearability.

When the collection is ready, Domenico Dolce and Stefano Gabbana personally supervise creation of the fashion show and communication books.

### Coordination

#### with commercial factors

The Style Office is fully aware that creativity – its key activity – must go hand in hand with an analysis of the real needs of the people who wear Dolce & Gabbana and D&G Dolce & Gabbana creations.

For this reason, the co-ordinators of the Style Office also act as the interface with the sales and marketing functions, a complex role whose objective is to ensure an optimum mix between the creative concepts on which the collections are based and commercial considerations.

The feedback from the Group's own stores and its multi-brand customers around the world provides valuable information here.

The Dolce & Gabbana Style Office attaches great importance to analysis of the end consumer, so that his or her needs are satisfied in every respect: style and image as well as commercial and marketing considerations.

### Communication

Image and communication have always played a key role in building and consolidating the Dolce & Gabbana and D&G Dolce & Gabbana brands. Constant coverage in the world press, through articles and advertising, has facilitated the Group's entry and success on many markets, raising awareness of its brands and their underlying philosophy among a growing cross-section of the public, and simultaneously providing support for sales.

As an international organization distributing multiple lines, the Group's strategic communication objectives vary according to the degree of brand recognition attained in each market. Communication goals range from boosting brand awareness to channeling the correct brand identity, using a broad selection of brand building tools. For example, in markets where Dolce & Gabbana is a leading player, there is great curiosity about the two Designers and their world. Over the years, quite spontaneously, this phenomenon has assumed considerable proportions, often prevailing over interest in the products, and turning Domenico Dolce and Stefano Gabbana into celebrities. In this case, image and communication are necessarily placed to global presentation of the life style of the two Designers, who are viewed as contemporary trend-setters. Seen in this context, the new Men's boutique at Corso Venezia 13, Milan is an excellent example of a creative and carefully planned communication strategy.

The new store is presented as a life-style model, with different areas reproducing the types of environment that the Designers themselves enjoy - the "Grooming" beauty-centre, a barber's shop, a Minibar bar - where the client can enjoy the pleasures of the Dolce & Gabbana world.

### Advertising campaigns

Of the various tools and channels used by the Group, press advertising campaigns have always been a core element in Dolce & Gabbana and D&G Dolce & Gabbana communication. The campaigns appear in up-market publications, specialty journals, in the fashion industry news magazines and daily newspapers.

### Dolce & Gabbana

The first advertising campaigns, that in Sicily reflect the absolute correlation between the Designers' message and their inspiration, an intense neo-fashion portrayed in black and white photographs that transmit the colours, scents, moods, faces and culture of the Island.

Later, the Dolce & Gabbana woman moved metaphorically speaking, from Sicily to New York and met Steven Meisel whose interpretation gave a modern, international connotation to the brand philosophy.

After the Sicilian Meisepesi, the surreal and passionate Dolce & Gabbana woman was personified by Isabelle Rossillon, Versachka, Junli, Evangelista, Gisele and major projects were organised with photographers of the calibre of Michael Comte, Mario Sorrenti and Helmut Newton. In the last few years, the Group has strengthened its ties with Steven Meisel, author among other things, of the move into colour photography.

Originality and innovation have been the hallmarks of Dolce & Gabbana campaigns from the very earliest days. This continued in the 2003 Spring/Summer collection, when the Group decided to support the women's collection with a number of campaigns based on different themes. In this way, it was possible to put the requisite emphasis on all the creative concepts underlying the collection and, equally, to address the dynamic, mutable personality of the female target, satisfying her constant search for something different with a sequence of different campaigns.

### D&G Dolce & Gabbana

Lanched to address a young, demanding and fast-moving audience, this brand has a different positioning with respect to Dolce & Gabbana. Vitality and universality are the characteristics of D&G Dolce & Gabbana communication. The intrinsic creativity of the brand philosophy translates into continual change in response to the needs of a public always on the lookout for new trends. The latest campaigns were photographed by Muro Teodoro group shots, in colour, representing a multi-ethnic world spanning all groups and classes.

### The Press Office and Communication

The Group decided very early on to set up an in-house Press Office to handle communication and build the Dolce & Gabbana image. It was a decisive move, since the proximity of Domenico Dolce and Stefano Gabbana gave the press officers the benefit of direct contributions from the designers in identifying key criteria and goals and planning strategy.

The Press Office and its operations have grown in direct proportion to the organisation. Today, Dolce & Gabbana and D&G Dolce & Gabbana communication is channelled through the leading national and international daily and periodical newspapers and journals, hearings, TV commercials, the official website, event sponsorships and, particularly important, relations with celebrities in the world of entertainment.

The Corporate Press Office is based in Via Golsoni, Milan. It co-ordinates offices in New York and Tokyo, as well as a team set up in London exclusively to handle celebrity relations.

DOUG GABBANA

CREATIVITY AND DISTRIBUTION STRATEGY A WINNING COMBINATION

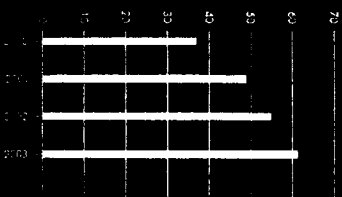
During 2002, special features and interviews with the designers about their work appeared in the top trade and general publications: Il Corriere della Sera, La Repubblica, Il Sole 24 Ore, Vogue Italia, Sunday Times Style, Abitare, Stern, AD, Wallpaper, Casa Brutus, Le Monde, WWD, Casa Vogue, Newsweek, Le Figaro, Ashi Shin bun, Vogue España, JNR, L'Espresso, the year, Dolce & Gabbana had 120 covers, and D&G Dolce & Gabbana 35.

In terms of media, the Group brands were channelled through TV periodically, the daily press, hoarding, radio and cinema in 66 countries.

D&G Dolce & Gabbana also strengthened its close ties with the music world when it sponsored the "MTV Europe Music Awards" in Barcelona in November 2002.

The Group's wide-ranging and high-profile media presence is the result of an investment policy that regards communication as a core business of its corporate strategy. Resources allocated to Press and Communication operations have risen continually and represent a significant percentage of annual worldwide revenues, split among the brands and geographical regions in line with the Group's qualitative and quantitative goals. Investments in communication activities for the 2002/2003 financial year amounted to €1.2 million euros, equivalent to more than 8% of worldwide revenues up by 12% from the year-earlier figure.

Communication investments in millions of Euros





DOLE & GABBANA

CREATIVITY AND DISTRIBUTION STRATEGY A WINNING COMBINATION

#### Distribution strategies

Distribution is an essential element of Dole & Gabbana strategy. The wholesale and retail channel mix is carefully planned in relation to in-distribution specifics: brand positioning and the growth targets set in each area according to perceived potential. While the organization continues to increase the number of retail outlets it manages directly in order to ensure proper representation of its wide range of collections, it also places great importance on building lasting partnerships with wholesale customers who provide the channel for constant, balanced growth.

In the USA and Japan, the markets offering the greatest potential for Dole & Gabbana to date expansion of the retail channel and right-sizing of wholesale distribution were the priorities of the growth strategy launched in 2002. After Italy, the USA and Japan account for the highest share of investments in proprietary retail outlets: 20.5% and 5.8% respectively of total expenditure in the last two financial years.

The important operations conducted in these two countries are managed by the New York and Tokyo offices, both of which are wholly owned subsidiaries of Dole & Gabbana S.p.A.

• Since 1992, the year it was founded, New York-based Dole & Gabbana USA Inc. has been responsible for operations on the US market, management of the wholesale channel and coordination of the satellite company that runs the US ownership network. As part of a major drive to expand both brands on the US market, which has very exciting prospects, retail investments over the last two years reached a level of around 10 million euros.

• Breakdown of the retail investments by geographical region over the last two years:

- Italy
- Europe
- USA
- Japan

The more recently established Dolce & Gabbana Japan K.K. of Tokyo opened its new head office in 2002, simultaneously taking over management of the existing outlets, free-standing stores and in-store shops opened and operated by the previous distributor. The brand-building strategy for Japan envisages major distribution investments for the dual purpose of opening new stores and upgrading existing outlets. Retail investments for the last two years totalled 4.4 million euros.

The New York, Tokyo and Milan locations also house the Group showrooms, which are used to present the collections and the sales campaign, and as exclusive venues for meetings with clients and buyers from all over the world.

#### The wholesale channel

The wholesale channel comprises the external organisations that market the Group's products around the world, specifically department stores, specialty stores and franchises.

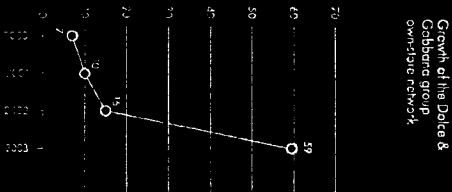
Dolce & Gabbana adopts a selective distribution policy aimed at in-depth market penetration and development of beneficial long-term wholesaler relations. To be reliable intermediaries, wholesalers must guarantee the positioning and image of the Group brands. Where Dolce & Gabbana is concerned, preference goes to organisations that can handle both the men's and women's collections and accessories.

The idea is to use the wholesale channel as a tool to strengthen global brand identity and also to support the positioning of the footwear and leatherwear collections, which are making important progress. In this area, for both brands, the Group also favours free-standing store franchising agreements with selected partners and agreements with the world's top department stores for in-store shops. In exchange for their commitment, Dolce & Gabbana offers its wholesalers the strength of its collections, an excellent logistics organisation and commercial planning that caters for the specific characteristics of each market and the particular requirements of its outlet management.

#### The retail channel

The Group's own mono-brand stores are its preferential channel for contact with the consumer. By maintaining a direct window on the market, Dolce & Gabbana is able to project the right brand image and boost client loyalty by delivering the highest standards of service at all times.

In recent years, the development of the retail channel has been a priority in the integration of the downstream value chain. A vital tool for Group growth, the retail channel has been a key tool in implementing a strategy combining business growth targets with positioning objectives. It has also provided decisive support for penetration of high-potential markets and investment in the accessories, footwear and accessories collections.



At 31 March 2003, the Group owned a total of 37 stores for the Dolce & Gabbana brand: 13 in Italy, 3 in the rest of Europe, 4 in the USA and 17 in Japan.

A new boutique opened in Venice in May 2003 and two other openings are planned by the end of the year, in Munich (Germany) and Short Hills (USA).

D&G Dolce & Gabbana stores operating worldwide numbered 22 at 31 March 2003: 5 in Italy, 6 in the USA and 11 in Japan. New openings for 2003 are in Ruckosee and Santa Margherita Ligure in Italy, Munich (Germany) and Dallas and Short Hills in the USA.

Additionally several new Dolce & Gabbana and D&G Dolce & Gabbana in-store shops are due to open shortly in Japan.

The Group also operates 6 direct sales outlets for print-season stock: 3 in Italy, 2 in the rest of Europe and 1 in the USA.

Several retail projects were launched during financial year 2002/03, of which the most important in terms of strategy and design were the first Men's flagship store and the Dolce & Gabbana Accessories boutique, both located in Milan.

#### The Dolce & Gabbana Men's boutique

##### at Corso Venezia 15

An historic late eighteenth-century building in the centre of Milan

is the venue for a store designed as the ultimate synthesis of the Dolce & Gabbana men's world. In addition to clothes, it looks after physical appearance with the 'Grooming' beauty shop and provides an opportunity to enjoy the pleasurable ritual of an old-style barber's shop or a drink in the relaxing surroundings of the Martin Bar. The store occupies three floors, in an unpredictable sequence of decors that contribute to create a unique atmosphere. At the entrance, clients are greeted by images of the collections and shows projected on plasma screens. The luxury hinted at here comes into its own in the elegant opulence of the upper floors. The frescoed ceilings and wood panelled floors have been restored to their original splendour, as have the travertine fireplaces, the encaustic and the door and window frames and casings. The beauty of the original fittings is enhanced by the lines of sober contemporary elements such as imposing black chandeliers in Murano glass, Chinese vases and classical elements of the Dolce & Gabbana style: baroque chairs and thrones, huge cactus plants in Shadian earthenware pots and original seventeenth-century paintings. The first floor is dedicated entirely to accessories, while the second floor, the so-called *piano nobile*, that was a former residence of the period, contains the collections, which are displayed in antique baroque wall-niche cases.



DOJCE & GABANA

CREATIVITY AND DISTRIBUTION STRATEGY: A WINNING COMBINATION

The building opens on to an interior courtyard, rather like a village square surrounded by shops.

Inside the barber's shop, inspired by traditional Sicilian tree-green marble is the predominant feature, set off by original barber's chairs, Murano glass lamps and chestnut paneling.

The "Grooming" beauty centre, in shining white Carrara marble, is an exclusive environment blending professionalism, elegant interiors and a sense of well-being. In the circular-shaped bar developed in co-operation with Martin, a black mosaic floor is dominated by a red dragon in a setting designed as a temple to present-day social rites.

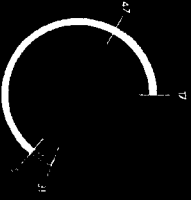
#### The Dolce & Gabbana

##### Accessories boutique

While Dolce & Gabbana accessories complete and define a style, they are also items in their own right and as such merit their own special showcase. This was the thinking behind the new boutique at Via della Spiga 26 (Milan), where shoes, bags, belts and eyewear take centre stage.

"Breakdown of the  
Dolce & Gabbana group  
by geographical region

- Italy
- Europe
- Japan
- USA



DOCE GABBANA

CREATIVITY AND DISTRIBUTION STRATEGY: A WINNING COMBINATION

DOCE GABBANA

CREATIVITY AND DISTRIBUTION STRATEGY: A WINNING COMBINATION

## The growth of Dolce & Gabbana in 2002

The results reported for the latest financial year offer evidence of the market's warm response to the Dolce & Gabbana and D&G Dolce & Gabbana sale and the success of the Group's brand communication and distribution strategies. In the year to 31 March 2003, the Dolce & Gabbana Group achieved a substantial consolidation of the growth trend that had been envisaged over the previous years, to record impressive advances in all its key business and financial aggregates: consolidated revenues (including retail sales), wholesale revenues and net income.

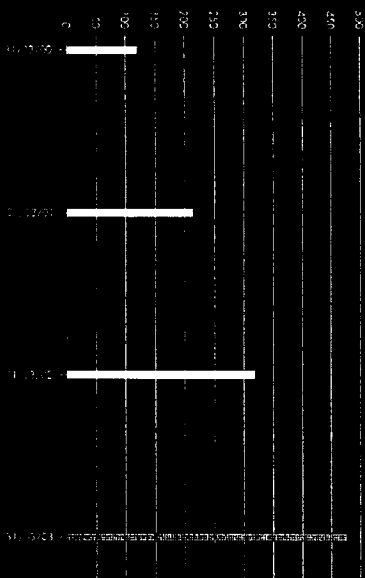
This growth is the direct result of the Group's long-term development plans and organisational strategy, which, to a great extent, are still underway. It is also the tangible outcome of the competitive advantages acquired by Dolce & Gabbana in its core businesses and the industrial and commercial strategies adopted to gain direct end-to-end control of the value chain and achieve balanced, gradual growth focused on the core business.

### Consolidated revenues

In the financial year to 31 March 2003, consolidated revenues, which reflect the Group's overall turnover, rose 49.5% from 317.6 to 475.0 million euros.

Figures in million of euro

Consolidated revenue trend	2000	2001	2002	2003
Industrial sales	53.7	72.1	200.7	770.9
Retail sales	28.7	43.5	74.5	148.9
Licensing revenues	38.0	39.6	42.4	55.2
Total	70.4	214.3	327.6	975.0



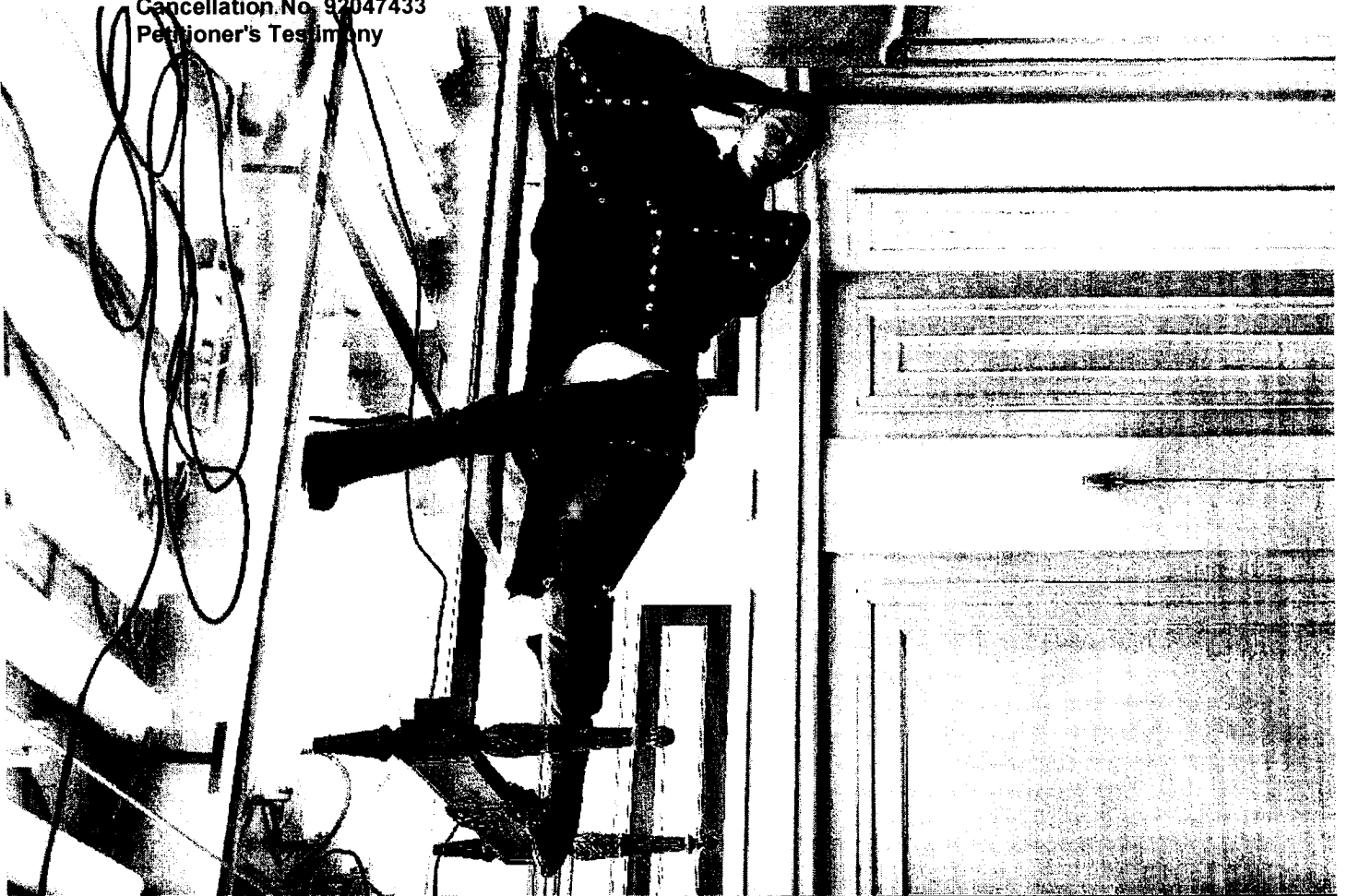
% breakdown of 2001/2002 consolidated revenues by business area

- Industrial operations
- Retail
- Licensing operations



% breakdown of 2002/2003 consolidated revenues by business area

- Industrial operations
- Retail
- Licensing operations



DOUG GABANA

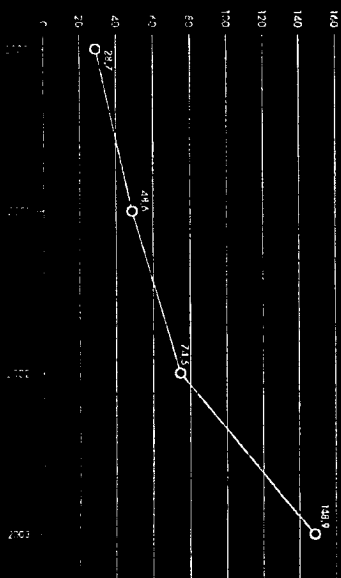
CREATIVITY AND DISTRIBUTION STRATEGY: A WINNING COMBINATION

#### Retail sales

Retail sales rose 99.9% from 74.5 to 148.9 million euros, and increased as a percentage of consolidated revenues from 23.3% to 31.4%. The performance was the result of the Group's significant investments in retail over the last two years, and its excellent customer service levels and customer relations.

In the latest financial year alone, to 31 March 2004, the number of mono-brand stores worldwide increased nearly four-fold, from 15 to 59. A major factor in this expansion was the in-house transfer of distribution operations in Japan, previously run by an external organization.

Retail sales trend  
in millions of euros



DOCE, GABBANA

CREATIVITY AND DISTRIBUTION STRATEGY A WINNING COMBINATION

DOCE, GABBANA

CREATIVITY AND DISTRIBUTION STRATEGY A WINNING COMBINATION

# Wholesale revenues

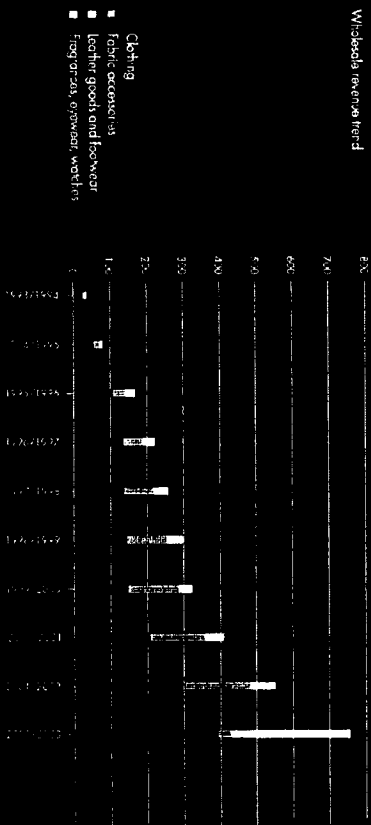
Wholesale revenues include sales of Dolce & Gabbana and D&G Dolce & Gabbana label products by the Group and by external licensees. They amounted to 753.9 million euros, an increase of 36.4% from the previous year.

In terms of merchandise categories, wholesale revenues rose 52.1% from clothing sales, 51.1% from leather accessories sales, 8.2% from the leather accessories and footwear division and 34.6% from sales of fragrances, eyewear and watches.

Figures in million of euros  
Wholesale revenue trend

	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01	01/02	02/03
Clothing	256	559	1090	1374	1986	1651	1481	2081	2978	3928
Fabric accessories	38	68	208	272	242	259	199	273	341	384
Leather goods and footwear	07	12	33	56	144	152	159	243	322	616
Fragrances, eyewear, watches	63	76	353	575	872	1031	1417	1516	1895	2611

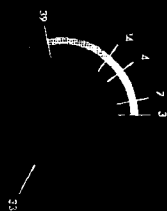
Wholesale revenue trend



- Clothing
- Fabric accessories
- Leather goods and footwear
- Fragrances, eyewear, watches

At brand level Dolce & Gabbana accounted for 55.4% of the Group result and D&G Dolce & Gabbana for 44.6%. Overall, the women's lines represented 65.3% of wholesale revenues and the men's lines for 34.7%.

Among geographical regions, Italy was the largest contributor to wholesale revenues with 32.8%, followed by the rest of Europe with 39%, the USA with 13.7% and Japan with 4.4%.



- Italy
- Rest of Europe
- USA
- Japan
- Rest of the world



- Dolce & Gabbana
- D&G Dolce & Gabbana

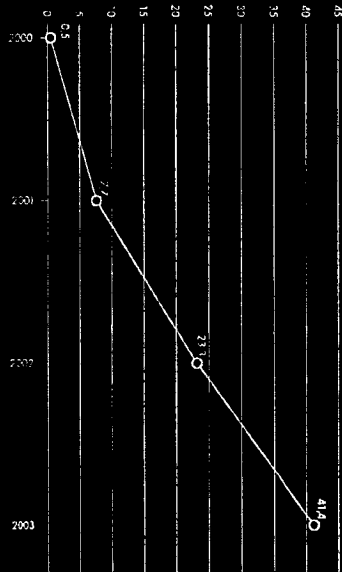
DOUG GABANA

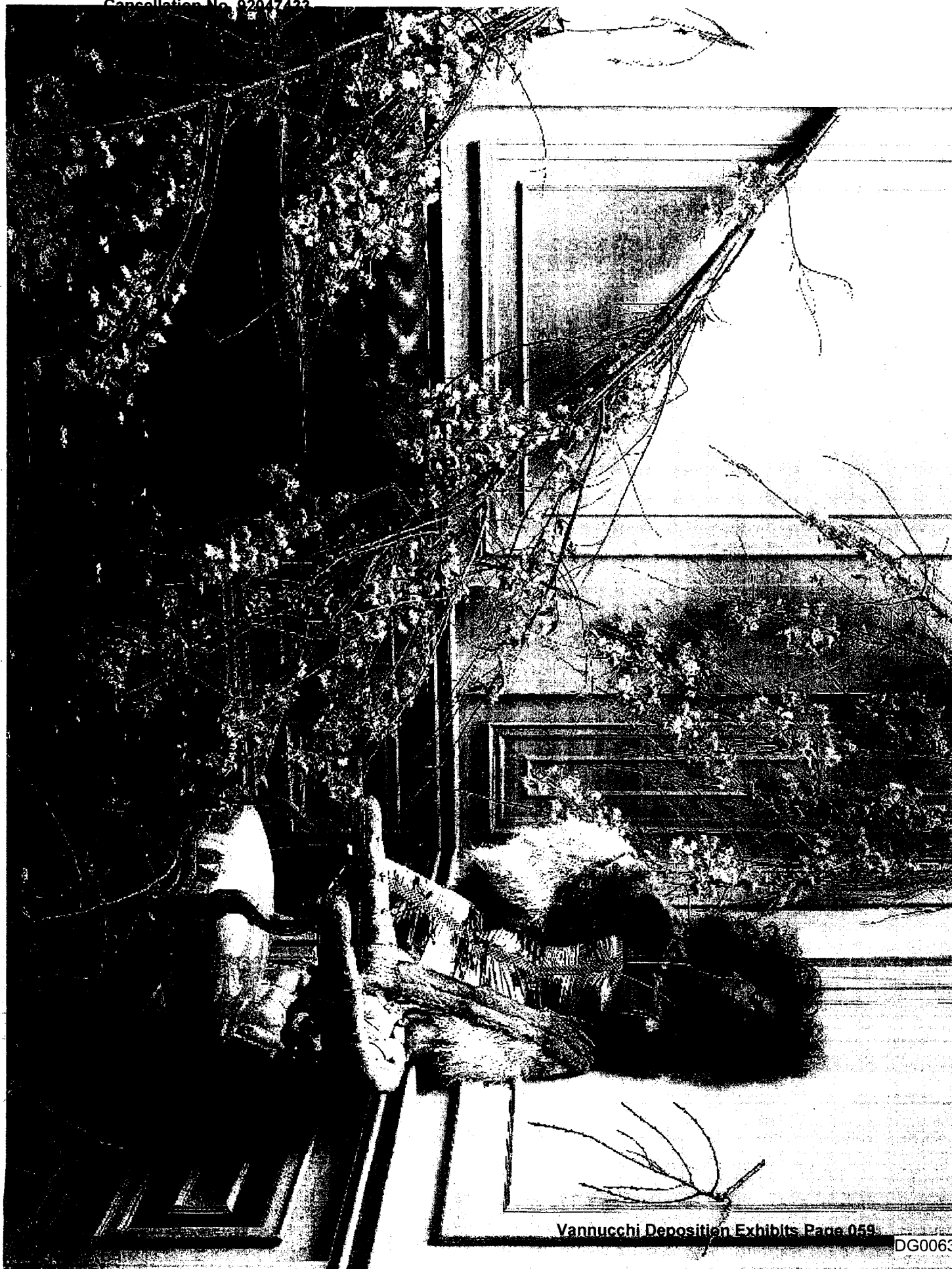
CREATIVITY AND DISTRIBUTION STRATEGY A WINNING COMBINATION

#### Net income

Consolidated net income rose by 78.2%, from 23.3 to 41.4 million euros; the return on Group revenues was 8.7%. Net income growth was due to improvements in core operations, specifically to the revenue rise described above and to successful containment of fixed cost increases.

In fact, Eritich improved by 61.9% from the previous year and rose as a percentage of revenues by 1.4 percentage points (from 17.4% to 18.8%). Net income further benefits from fixed cost on investments.





**Comments on the main income statement headings**

Consolidated net income (after minority interests) rose by 78.2% to 41.4 million euros.

In financial year 2002, the Group reported significant growth for its main business and financial aggregates. Specifically, consolidated revenues rose by 49.5% compared with the previous financial year, to reach 475 million euros. Ebitda increased 61.5% to 89.4 million euros. Ebit improved by 59.6%, from 45.2 to 72.1 million euros.

Figure in million of euros

Consolidated income statement	31/03/01	%	31/03/02	%	31/03/03	%
Industrial sales	127.1	59.3	200.7	63.2	270.9	57.0
Retail sales	48.6	22.7	74.5	23.5	148.9	31.4
Net sales	175.7	82.0	275.2	86.7	419.8	88.4
Licensing revenue	38.6	18.0	42.4	13.3	53.2	11.6
Total revenues	214.3	100.0	317.6	100.0	473.0	100.0
Cost of sales	93.3	43.5	140.5	44.2	204.6	43.1
Gross margin	121.0	56.5	177.1	55.8	270.4	56.9
Selling, general and administrative expenses	94.0	43.9	121.9	38.4	81.0	38.1
Ebitda	27.0	12.6	55.2	17.4	89.4	18.8
Depreciation and amortization	9.6	4.5	10.1	3.2	9.3	3.6
Ebit	17.4	8.1	45.2	14.2	72.1	15.2
Financial expenses/(income)	2.1	1.0	3.1	1.0	7.1	1.5
Other expenses/(income)	(0.5)	(0.2)	(0.2)	(0.1)	3.6	0.7
Ebt	13.8	7.3	42.2	13.3	61.4	12.9
Taxes	8.1	3.7	18.9	6.0	20.0	4.2
Net income	7.7	3.6	23.3	7.3	41.4	8.7
of which minority interests	4.8		8.8		10.4	

The improvement in consolidated revenues reflected significant growth across all revenue sources, with particularly impressive results for retail sales, which doubled (+99.9%) from the year-earlier figure, to a total of 148.9 million euros. Industrial sales and licensing revenues increased by 35% and 30.1% respectively.

Retail performance was the result of the investments made over the last two financial years, which enabled the Group to open a large number of own stores and take over direct management of distribution operations in Japan, previously run by a local partner. Important increases in retail sales were reported in Italy (+58%), the rest of Europe (+187%) and the USA (+39%).

The main drivers in the increase in industrial sales were Doice & Gabbana Clothing, which reported a 44% improvement, and the Footwear & Leatherwear division, where revenues rose by 91% as a result of the Group's growth strategies. A significant rise was also reported for the D&G Doice & Gabbana Junior line (+78%).

Licence revenues from licensed products grew by 37% and 22% for eyewear and fragrances respectively, and by 138% for watches. Revenues for the D&G Doice & Gabbana clothing line increased by 30% against the previous financial year.

Cost of sales reported a 43.1% incidence on total revenues, decreasing of around 1.1 percentage points compared with the previous financial year. Cost of sales contraction has been however attenuated by the assessment of leftover stock, which rose as a result of the expansion of retail activities and was affected by the rise in the value of the euro against the dollar and the yen. Fixed costs increase was in line with revenues (+48.4%). The largest rise came in labour costs, as a result of the expansion of the workforce during the period. The number of hands rose by 581 (+63.7% from 31/03/02); on an annualised basis the average number of employees was 1,202 hands.

A significant rise (+72.1%) was reported in depreciation and amortisation, which totalled 17.3 million euros. This was chiefly due to the new retail outlets, since the industrial investment plan for Legnano and Incisa was not launched until the end of the financial year.



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The revenue and cost trends illustrated above produced a significant improvement for all earnings indicators. Ebitda improved by 61.9% from the previous financial year and rose as a percentage of revenues by 1.4 percentage points to 18.8%.

Ebit stood at 15.2% of revenues and amounted to 72.1 million euros, an improvement of 59.6% from the previous financial year. Consolidated net income totalled 41.4 million euros; it took advantage of tax relief on investments and reported a 78.2% increase compared with year-earlier figure.

Profitability indexes (%)

	31/03/01	31/03/02	31/03/03
EBITDA/Total revenues	12.6	17.4	18.8
KOS (Return on sales)	8.1	14.2	15.2
ROCE (Return on capital employed)	13.1	22.0	24.3
ROE (Return on equity)	28.1	54.2	56.7

Sound equity indexes (ratio)

	12	12	10
Gearing	12	14.4	10.2
Interest cover	8.2	14.4	10.2
EBITDA/Net debt	0.7	0.8	1.0



### Comments on the main balance sheet headings

The building in Via Colonna, which houses the new Group head office, became operational at the end of the year totalling 72.2 million euros, generating an increase of 56.9% in net fixed assets to 142 million euros (deducted long-term financial assets). This was largely the outcome of the expansion of the own-store network, described earlier in this review, which absorbed investments totalling approximately 31 million euros of which 19.7 million in Italy and the remainder on international markets.

The building in Via Colonna, which houses the new Group head office, became operational at the end of the period, with an investment, including lease-purchase and restructuring costs, of approximately 32 million euros. The current asset trend substantially reflected revenue growth, with an increase of 50% to 45.3 million euros. Specifically, the rise in inventories from 51.3 million euros as of 31 March 2002 to 63.2 million euros as of 31 March 2003 was due almost entirely to the growth in retail operations.

*Figures in millions of euros*

Consolidated balance sheet	31/03/01	31/03/02	31/03/03
<b>Net fixed assets</b>	<b>59.4</b>	<b>96.7</b>	<b>146.0</b>
Tangible assets	29.2	31.5	73.2
Intangible assets	22.6	59.0	64.8
Financial assets	7.6	6.2	4.0
<b>Net current assets</b>	<b>15.1</b>	<b>30.2</b>	<b>45.3</b>
Accounts receivable	57.1	78.1	86.3
Inventories	28.1	51.3	63.2
Accounts payable	(72.1)	(94.7)	(93.3)
Other current assets	16.6	23.8	47.6
Other current liabilities	(14.6)	(28.3)	(56.4)
<b>Reserves</b>	<b>(4.2)</b>	<b>(5.4)</b>	<b>(7.6)</b>
<b>Net invested capital</b>	<b>70.3</b>	<b>121.5</b>	<b>183.8</b>
<b>Financed by</b>			
Debt/ (Cash and cash equivalent)	38.9	67.1	91.9
Equity shareholders' funds (including minority shareholders)	31.4	54.4	91.9
	70.3	121.5	183.8
Minority shareholders' equity	6.2	14.8	22.1

Operating activities generated cash flow of 62 million euros (+72% compared with financial year 2002), of which 15 million euros invested in current assets and 72 million euros in capital expenditure. Net banking debt, excluding real-estate leasing, was around 60 million euros; it reported a 7.6 million decrease and consisted almost entirely of short-term borrowings.

With the opening of the new financial year, medium/long-term coverage was arranged for the Group's industrial growth plan and has already been utilised in part. Additionally, new lines of credit expiring in December 2004 were opened to cover the syndicated loan due in June 2003.

*Figures in millions of euros*

Consolidated cash flow statement	2000/2001	2001/2002	2002/2003
<b>1. Operating activities</b>			
Net income	7.7	23.3	41.4
Depreciation and amortisation	9.6	10.1	17.3
Changes in reserves (employee indemnities+others)	0.9	2.8	3.5
Capital losses/(gains) on sales of fixed assets	2.1	-	-
Cash flow from operating activities before changes in current assets and liabilities	20.4	36.2	62.3
Change in net current assets	(4.3)	(16.7)	(14.9)
<b>Net cash flow from operating activities</b>	<b>16.0</b>	<b>19.5</b>	<b>47.4</b>
<b>2. Investing activities</b>			
Capital expenditure	(17.7)	(44.8)	(72.3)
Long-term investments	(2.3)	1.4	(0.2)
Sale of fixed assets	0.2	-	0.5
<b>Cash flow from investing activities</b>	<b>(19.8)</b>	<b>(47.4)</b>	<b>(71.9)</b>
<b>3. Financing activities</b>			
Share-capital increases	-	0.5	-
Other changes in shareholders' equity	0.5	(0.8)	(0.2)
<b>Cash flow from financing activities</b>	<b>0.5</b>	<b>(0.3)</b>	<b>(0.2)</b>
Opening net financial position	35.6	38.9	67.1
Closing net financial position	38.9	67.1	91.9
<b>Net financial requirement</b>	<b>(3.3)</b>	<b>(28.2)</b>	<b>(24.7)</b>

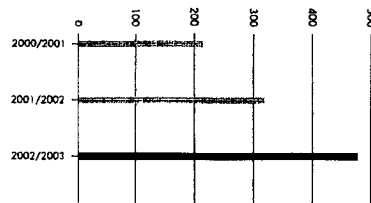
DOICE, GABANA

RESULTS IN 2002, STEADY, SOLID GROWTH

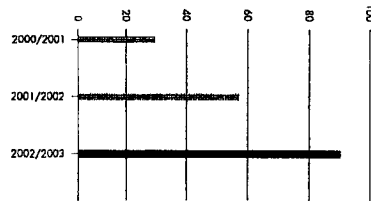
DOICE, GABANA

RESULTS IN 2002, STEADY, SOLID GROWTH

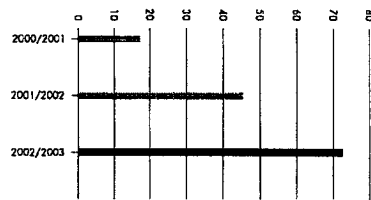
Consolidated revenues  
in millions of euros



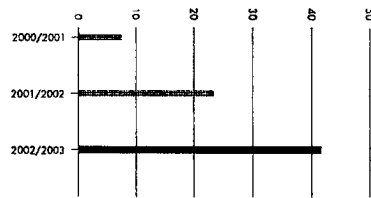
Ebitda  
in millions of euros



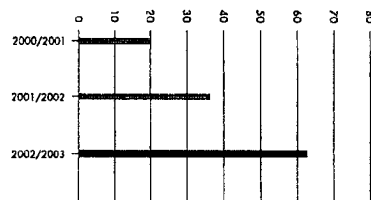
Ebit  
in millions of euros



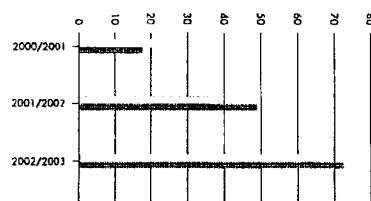
Net income  
(including minority interests)  
in millions of euros



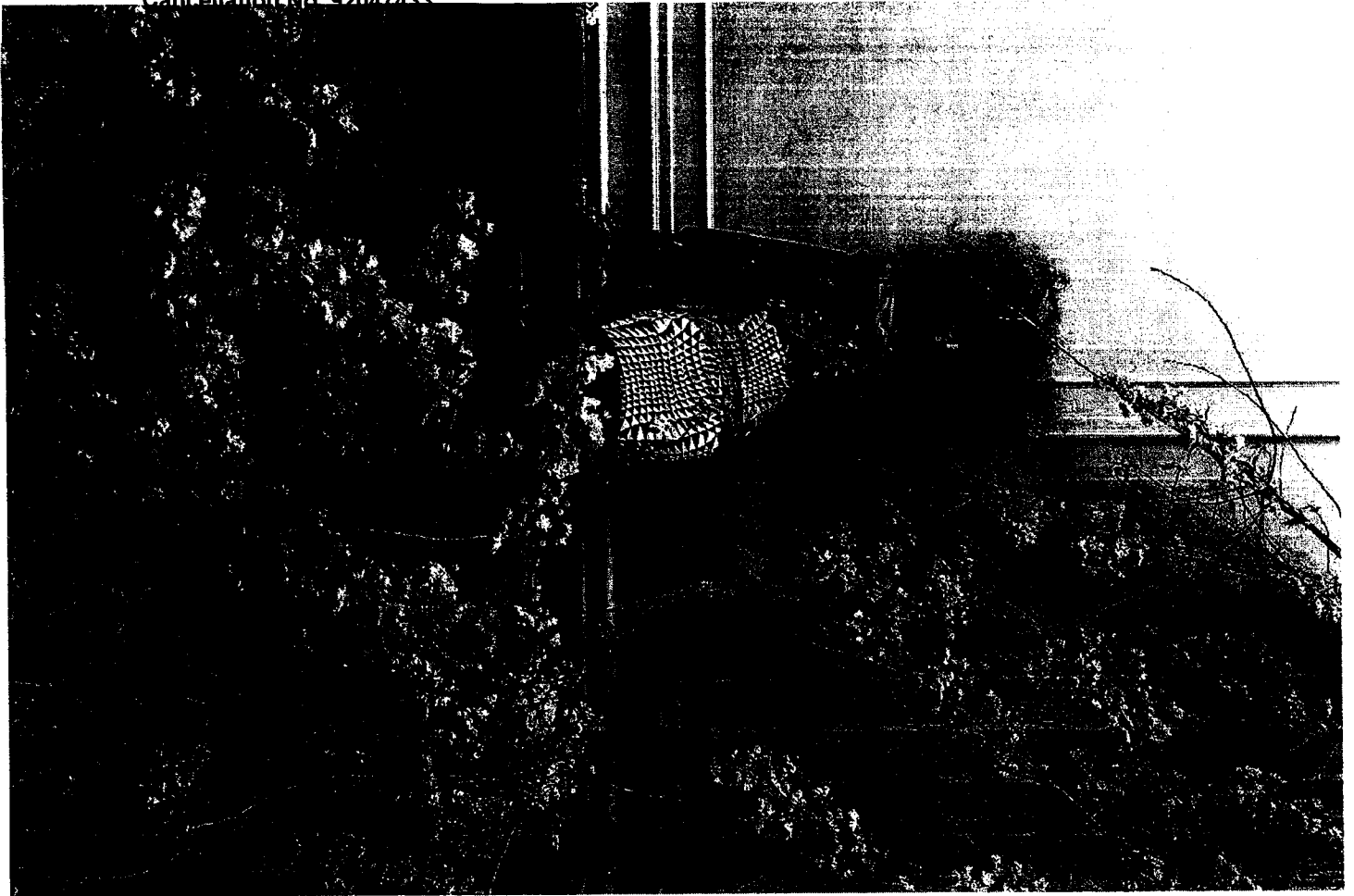
Cash flow  
from operating activities  
in millions of euros



Self-financing and capital  
expenditure  
in millions of euros



Self-financing  
Capital expenditure



DOICE, GABBANA

RESULTS IN 2002: STEADY, SOLID GROWTH

**Company Officers**

Dolce & Gabbana S.p.A.

*Chairman*  
Stefano Gabbana

*Chief Executive Officer*  
Domenico Dolce

*Director*  
Alfonso Dolce

*Director*  
Domenico Dolce

*Director*  
Cristiana Ruella

**Board of Statutory Auditors**

*Chairman*  
Antonio Tosi

*Auditor*  
Giovanni Cirina

*Auditor*  
Maria Giuseppina Vibri

**Independent Auditors**

PricewaterhouseCoopers

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE  
BEFORE THE TRADEMARK TRIAL AND APPEAL BOARD

GADO S.R.L.

Petitioner,

-against-

JAY-Y ENTERPRISE CO., INC.,

Respondent.

:  
: Cancellation No. 92047433  
:  
:  
:  
:

**PETITIONER'S TESTIMONY – VANNUCCHI DEPOSITION EXHIBIT E**

DG00577

INVESTIMENTI DIRETTI USA 1998-2009

TOTALE		1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Totale complessivo
Prodotti		696,997	1,174,052	1,076,132	1,709,488	1,585,678	2,429,282	1,934,040	2,347,922	5,429,358	9,571,570	12,341,262	5,343,396	45,589,177
D&G														
Deke & Cabbana		2,199,507	3,483,673	3,885,369	6,001,509	6,801,573	6,799,080	6,231,540	6,338,125	7,897,800	11,241,002	9,708,400	4,871,073	75,538,741